AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES

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AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR 1987

WEDNESDAY, MARCH 12, 1986.

FEDERAL GRAIN INSPECTION SERVICE

WITNESSES

ALAN TRACY, ACTING ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

KENNETH A. GILLES, ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE

DAVID R. GALLIART, DEPUTY ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE

ROBERT "E" SODERSTROM, DIRECTOR, RESOURCES MANAGEMENT DIVISION, FEDERAL GRAIN INSPECTION SERVICE

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. The committee will come to order.

We have with us Mr. Tracy and his associates of the Federal Grain Inspection Service.

I note that you again are asking for user fees. I think quite a large percentage of your operation is financed by user fees now. Do you have a request before the legislative committee to authorize these changes or are you asking us to impose them?

Mr. TRACY. We do not have a legislative request forwarded to the Congress as yet.

Mr. WHITTEN. That's one way not to get it if you don't ask for it from those who have the jurisdiction? You may proceed.

Mr. TRACY. Without further ado, I will turn it directly over to Dr. Kenneth Gilles, administrator of FGIS.

[Statement and biographical sketch of Mr. Tracy follows:]

ALAN T. TRACY

ACTING ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES

Alan T. Tracy was appointed deputy assistant secretary of Agriculture February 1, 1985.

Tracy assists the assistant secretary in overseeing seven agencies which are: Agricultural Marketing Service, Animal and Plant Health Inspection Service, Federal Grain Inspection Service, Food Safety and Inspection Service, Office of Transportation, Packers and Stockyards Administration, and Agricultural Cooperative Service.

From April 1982 until January 1985, Tracy was deputy under secretary for International Affairs and Commodity Programs, and from March 1981 until April 1982, he was general sales manager and associate administrator of USDA's Foreign Agricultural Service and vice president of USDA's Commodity Credit Corporation.

From 1970 to 1981, he was with Tracy and Son Farms, Inc., Janesville, Wisconsin, a family farm and seed business which produces seed corn, seed oats, alfalfa, hogs, and beef. He was president from 1976 to 1981. A sister company is the largest seed corn producer in Chile.

He earned a bachelor's degree in agricultural economics from Cornell University, Ithaca, New York, and a master's degree in international business from the University of Wisconsin, Madison.

Tracy has been a bank director and a trustee of Beloit College. He was named Wisconsin's Outstanding Young Farmer of 1980 by the state Jaycees.

Tracy is married. He and his wife Kris have three children.

NOTE: Mr. Tracy was appointed Acting Assistant Secretary for Marketing and Inspection Services effective February 18, 1986.

Statement of

Alan T. Tracy

Acting Assistant Secretary for Marketing and Inspection Services

Before the
House Appropriations Subcommittee on Agriculture,
Rural Development, and Related Agencies

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to review the programs and budget of the Federal Grain Inspection Service (FGIS). Joining me today is Dr. Kenneth A. Gilles, Administrator, Mr. David R. Galliart, Deputy Administrator and Mr. Robert "E" Soderstrom, Director of the Resources Management Division.

Our request comes at a time when the U.S. grain marketing industry is faced with decreasing exports and increasing world-wide competition. FGIS will help meet this challenge by facilitating the trading of grain through its role of providing and supervising grain inspection and weighing services.

The FGIS budget proposal fully supports the President's goal to reduce the Federal deficit. A total of $43.8 million is proposed for fiscal year 1987. Under current law, $7.0 million would be financed through an appropriation request which is before this committee. However, the Administration has also proposed legislation to eliminate this appropriation and thus increase the agency's dependence on user fee funding from 85 to 100 percent. This is of course consistent with the Administration's general thrust to initiate or expand user fees wherever possible.

With this general introduction I will yield to Dr. Gilles who will present the budget in greater detail.

Statement of the Administrator

Dr. **Gilles**. Mr. Chairman and members of the committee, it's a pleasure to appear before you again, this time to state the Fiscal Year 1987 budget for the Federal Grain Inspection Service.

To conserve the committee's time, we would like to submit a detailed statement for the record, and I would like to paraphrase it if I may.

Mr. **Whitten**. Without objection.

[**Clerk's note**: The full text of Mr. Gilles prepared statement appears on pages 41 through 50. The explanatory notes appear on pages 51 through 70.]

Dr. **Gilles**. Under the current law, we are asking for $43.8 million for the Fiscal Year 1987. User fee funding for inspection and weighing activities would account for $36.9 million, while the appropriation request is for $7 million. The appropriations would include the standardization activities, the compliance activities, and the international monitoring, and the advisory committee. No new program funding is requested.

During the past Fiscal Year, we have continued our efforts to become a financially self-supporting agency. Despite the decreased exports, the agency cost containment procedures have yielded a positive margin of approximately $264,000. This has enabled FGIS to maintain its desired three-months' operating reserve, and at the same time we were able to repay $2 million to the Treasury of the $6 million supplemental appropriation that we had requested and received in November of 1983.

We have always considered this to be a supplemental line of credit to be used when necessary, and we expect to retire the balance within the next year if our operating balances permit.

The executive budget for Fiscal Year 1987 will expand the user fee funding to include the standardization, the compliance, the international monitoring, and advisory committee activities. We estimate that less than one-tenth of a cent per bushel will be added by these activities to the cost of the Federal inspection system.

Although the general public receives some benefit from these activities, the direct beneficiaries are those who participate in the marketing of U.S. grains and related commodities. It is appropriate that the costs of these activities be borne by the identifiable groups who benefit.

The increased user fees will be assessed on the basis of costs of the service, and we are hopeful that the grain industry, which has recognized our continuing efforts to provide a cost-effective service, will support the expanded user fees.

FGIS grain inspections totaled 101 million metric tons during Fiscal Year 1985. This is a decrease of approximately 12 percent from 1984. Because of increased competition, complaints from buyers reflected increased concern about overall quality and condition of grain. The level of consciousness on grain quality and condition has increased industrywide.

FGIS will continue to work with the industry to maintain and improve the U.S. standards of grain, to identify and help resolve the causes of quality and condition problems both in the domestic and in export markets.

Items featured in the unabridged statement but not presented in this brief statement, would include materials on program and financial information, the 1987 budget request, and comments relative to elevator safety and the FGIS advisory committee activities.

Mr. Chairman, this concludes my opening testimony, and I will be pleased to endeavor to answer any of your questions.

GRAIN QUALITY

Mr. WHITTEN. Do you still have complaints about the fact that, in some cases, grain we export just barely meets the standards? In past years we have had complaints about the quality of our grain where they followed the practice of taking the dust out and then putting it back after inspection. Are those shortcuts being taken by the trade?

Dr. GILLES. Complaints still arise, Mr. Chairman. But I think we were able in the last two years to shed some factual information relative to the question that you raise. We have conducted a survey of all of the export shipments for wheat, for corn, and for soybeans. And I would like to share with you these kinds of numbers, just to set the stage. With respect to wheat, which probably is the most sensitive relative to the business of the presentation of allegations of foreign material and dockage, 96 percent of the export shipments in 1985 were graded Number 2 or better.

If we look at it from the standpoint of individual factors, 39 percent of the ship sublots would have graded Number 1 if we would have reported it out. And I think that rather speaks well for the fact that while the allegations are that everything is right at the borderline—and most of the contracts call for Number 2 or better—actually, you see, 39 percent would have graded Number 1 if the buyers had just bought by the grade.

My point is that we do hear complaints. They do exist. But they represent a relatively small amount of the total grain that is exported from this country.

Mr. WHITTEN. Do you still provide for arbitration in the cases where there is a difference between the receiver and shipper over the grades? Do you have any difficulties that you still have to deal with?

Dr. GILLES. We do have difficulties. However, Mr. Chairman, we do not provide arbitration. The method in which we apply the U.S. Grain Standards Act is that there is a final certificate given at the time that a vessel is loaded for export. And there are occasions, because we deal with humans, that errors are committed.

In the event that an error seems to have occurred, we do appeal through our system and we maintain at the time of delivery a portion of each of the sublots. And if there is a complaint, we reexamine those sublots to see whether or not an error had been made. In the event that one has been made, we inform the shipper and the buyer so that the matter can be settled by them.

Mr. WHITTEN. This perhaps doesn't have to do with inspection—but from time to time we hear about lawsuits where grain crops that are produced gets out of the hands of the producer and then weighed later by those who may have a claim against a warehouseman. Do you deal directly with that kind of a situation?

Dr. **Gilles**. No, sir, we don't deal with the warehouse. That's another agency. And within the domestic market——

Mr. **Whitten**. What do you estimate will be the reduction in the amount of grain you have to inspect under the new farm bill where we're paying people not to produce?

Dr. **Gilles**. It's very difficult to give you a precise answer because, obviously, not only the effect of the farm bill but weather would enter into this. I think as grain becomes more valuable, people will tend to continue inspecting grain.

Now, I have noted the trend over the last several years is that there has been slightly more inspection of grain in the interior, whereas when people would say because of the financial difficulties within the farm sector, you would think that they would inspect it less. That has not been the tendency. The total number of inspections that we have conducted have been roughly in the three million range for the last several years.

Mr. **Whitten**. Do they still practice this turnover of grain where they can sell it, even though it's on loan? How do you operate now regarding title to the grain that you inspect?

Dr. **Gilles**. We are not involved with the financial transactions. The agency operates as a neutral third party. We don't represent either the buyer or the seller, in this sense. So we do not get involved with title.

USER FEES

Mr. **Whitten**. What is this other 14 percent which you intend to put under user fees?

Dr. **Gilles**. The user fee proposal would include the activities of the standardization unit—this is a group that works in grain standards, revises them and keeps them current, also keeps them abreast of any changes in technology; the compliance division—this is the group that investigates to see, if there is a complaint, whether the complaints are valid within the system, makes sure that the people are complying with the Grain Standards Act; the international monitoring unit, which is the unit that is concerned with overseas complaints; and finally, the advisory committee, which is also currently funded by appropriated funds. The aggregate is $7 million.

Mr. **Whitten**. How much were your collections this year?

Dr. **Gilles**. Our collections, right around $32 million, approximately.

Mr. **Whitten**. Was that turned in to the general fund of the Treasury or to the department? How is that handled?

Dr. **Gilles**. The agency operates with a revolving fund and with an appropriated fund. So the receipts that come in are handled through the National Finance Center in New Orleans and become part of the revolving fund.

Mr. **Whitten**. How many employees do you have now?

Dr. **Gilles**. We have approximately 750 plus another group of roughly 200 intermittent employees.

Mr. **Whitten**. As to Gramm-Rudman, what do you think its effect will be on your operation?

Dr. Gilles. For the year 1986, I think we can accommodate the reduction under Gramm-Rudman, primarily by reducing our discretionary spending: travel, equipment, and these types of things. We are, of course, uncertain as to the impact in 1987.

Mr. Whitten. If you don't travel to make inspections, do you have them send you a sample? How do you handle it if you don't go where the grain is?

Dr. Gilles. I am thinking more in terms of travel for supervision and monitoring activities. Grain, of course, must be transported and it must be sent.

Mr. Whitten. Is your operation going to be crippled this Fiscal Year? What are you dealing with there?

Dr. Gilles. For the 1986 Fiscal Year, Mr. Chairman, I don't anticipate that we will be crippled. We will have to change some of our efforts of activity. We do some contract work on research, for example, and we would curtail that. We obviously have a plan to continue modernizing equipment. Some of those decisions can be deferred, as well as the travel. These are the types of decisions that I would call discretionary funding

USER FEES FOR STANDARDIZATION AND COMPLIANCE

Mr. Whitten. The fiscal year 1987 budget request proposes to assess user fees to cover the full cost of agency activities. By how much will the fees need to be increased to cover the total cost?

Dr. Gilles. Beginning in fiscal year 1987, an additional $7 million, presently funded by appropriated funds, would require funding from user fees. At present spending levels this action would necessitate a 20 percent increase, however, we plan to investigate possible areas to reduce costs.

Mr. Whitten. How do you propose to assess the additional fees?

Dr. Gilles. The additional fees will be assessed by increasing or expanding the present fee structure.

Mr. Whitten. Last year you proposed a three-year phase-in period. Is that again the proposal?

Dr. Gilles. No, the executive budget proposes total user fee funding beginning October 1, 1986.

Mr. Whitten. Who will pay the additional fees—the producer, the consumer, or the middleman?

Dr. Gilles. All users who pay the present fees will also pay the additional fees.

Mr. Whitten. If Congress agrees to the proposed legislation, what is your best estimate of the collections of the initial year?

Dr. Gilles. Our best estimate for the initial year collections is $43.8 million. This will be an increase of $7 million.

Mr. Whitten. Will the new legislation propose to continue the practice of depositing collections with the U.S. Treasury, or are you proposing to deposit receipts in agency accounts?

Dr. Gilles. The collections from the fees assessed are presently deposited with the U.S. Treasury, in an FGIS account, as required by the U.S. Grain Standards Act. The same practice will continue under the proposed legislation.

Mr. Whitten. Has the legislation been submitted to Congress, and what is the effective date of the proposed legislation?

Dr. GILLES. No, legislation requiring FGIS to assess fees to fully recover the costs of providing official services has not been sent to Congress. When the legislation is submitted, the proposed effective date will be October 1, 1986, the beginning of fiscal year 1987.

OFFICE RELOCATION

Mr. WHITTEN. Last year you anticipated the relocation of your employees at the Richards-Gebaur Air Force Base would be completed by February 9, 1986. Has the relocation been completed?

Dr. GILLES. No, we anticipate the relocation of our employees at the Richards-Gebaur Air Force Base to be completed by June 1, 1986.

Mr. WHITTEN. If so, please provide an estimate of the cost of this move, plus an estimate of the operational cost of the new facility versus the operational cost at Richards-Gebaur.

Dr. GILLES. Even though the move has not been completed we anticipate minimal cost. The General Services Administration has estimated the cost will not exceed $20,000. The operational cost of the new facility is projected to be approximately $248,000 per year as compared to the current operational cost of Richards-Gebaur of about $215,000 per year.

Mr. WHITTEN. How much will permanent change of station costs run?

Dr. GILLES. No permanent change of station costs are anticipated as the relocation is considered within the metropolitan area of Kansas City.

Mr. WHITTEN. What is the law regarding paying for housing costs in a change of station?

Dr. GILLES. Agricultural Travel Regulation, DM 2300-1, amendment 8, issued May 2, 1984, states that agencies have the option in considering permanent change of station allocations. Since the relocation is within the metropolitan area of Kansas City, FGIS has chosen not to allow permanent change of station costs in connection with this move.

Mr. WHITTEN. Did FGIS have any say in the location of the new office?

Dr. GILLES. In September, FGIS participated with the General Services Administration—GSA—in conducting a market survey of several locations within the Missouri and Kansas City, Kansas, metropolitan area. FGIS was successful in objecting to a few unacceptable locations. We were satisfied with the potential locations that were participating in the offering process. GSA selected the final location based on the low offer.

ADVISORY COMMITTEE

Mr. WHITTEN. Have there been changes during the past year of the members of the Advisory Committee? If so, please identify the new members.

Dr. GILLES. There were no changes during the past year of the members of the Advisory Committee.

Mr. WHITTEN. Please provide a schedule of Advisory Committee meetings during 1985.

Dr. **Gilles**. During calendar year 1985, Advisory Committee meetings were held on April 15, July 15, and October 8.

Mr. **Whitten**. What were the recommendations of the Advisory Committee during the past year? What is the status of those recommendations?

Dr. **Gilles**. I will supply the recommendations by the Advisory Committee during the calendar year 1985 and the status.

[The information follows:]

ADVISORY COMMITTEE RECOMMENDATIONS--CALENDAR YEAR 1985

No.	Recommendation	Status
1.	Supported a continuation of appropriated funds for the Administration of Standardization, Compliance, International Monitoring, and Advisory Committee activities.	Minutes forwarded to Secretary's office.
2.	Recommended that FGIS continue to support such groups as the President's Export Trade Council and individual commodity groups to analyze and evaluate possible solutions to export trade problems.	FGIS has continued to support such groups.
3.	Recommended rejection of most proposed legislation designed to control dust in grain and supported other proposed legislation which is more consistent with current practices.	Certain amendments were included in the Food Security Act of 1986.
4.	Recommended that FGIS prohibit the practice of taking dust collected before weighing and sampling and adding it back before weighing and sampling.	FGIS survey indicated that this was not a practice at any export elevators.
5.	Recommended that FGIS not propose any regulations to control dust which would add to handling costs without enhancing the value of the grain.	FGIS has not proposed any regulations to control dust.
6.	Recommended that FGIS continue to review the grain standards and consider what amendments are needed.	FGIS is continuing to review the standards and plans to propose changes as needed.
7.	Recommended that FGIS not change the basic reference method to determine corn moisture.	FGIS has not taken action since the recommendation to change the basic reference method.
8.	Recommended that FGIS propose amending the wheat standards to certificate dockage to the nearest tenth of a percent.	FGIS held public meeting January 7 in Denver, Colorado. Presently awaiting recommendations from the grain industry. Plan to publish proposed changes in June 1986.
9.	Recommended the establishment of an interagency task force of EPA/FDA/USDA to improve communication and obtain consistency on insect infestation issues.	FGIS has sent invitations to other USDA agencies, EPA, and FDA, and is receiving positive feedback.

ADVISORY COMMITTEE RECOMMENDATIONS--CALENDAR YEAR 1985-Continued

No.	Recommendation	Status
10.	Recommended that FGIS initiate with Extension Service and commodity and producer groups, an educational program on insects and insect control.	Ideas are being shared between FGIS and the Extension Service on an ongoing basis.
11.	Recommended that FGIS request comments via the Federal Register whether to distinguish between types of insects in all grains and whether to add a separate grade column for insect-damaged kernels in wheat.	A proposal is being prepared.
12.	Recommended that FCIS establish a tolerance as to the number of live insects allowed.	A proposal is being prepared.
13.	Recommended that FGIS phase in or delay effective date of changing the number of insects needed to designate grain as weevily or infested.	A proposal is being prepared.
14.	Recommended that FGIS ensure that Insect Task Force procedural matters are corrected. Also, report followup activities from the Insect Task Force Report at the January 1, 1986, Advisory Committee meeting.	Accomplished.
15.	Recommended that FGIS continue to review the grain standards and the regulations that support them.	Ongoing.
16.	Supported a continuation of FGIS as a separate USDA agency.	No action taken.

Mr. **Whitten**. What was the cost of Committee activities during fiscal year 1985?

Dr. **Gilles**. The cost was approximately $31,500.

Mr. **Whitten**. Are there any paid advisors or employees on the Committee?

Dr. **Gilles**. Committee members are reimbursed only for per diem and transportation expenses in conjunction with attending Advisory Committee meetings. FGIS personnel are not members but do provide professional and secretarial staff support.

CONFLICT OF INTEREST VIOLATIONS

Mr. **Whitten**. Did you conduct any investigations of conflict of interest during fiscal year 1985?

Dr. **Gilles**. In fiscal year 1985, we reviewed 8 of the 9 designated agencies and 23 situations involving individuals with identified conflicts of interest.

Mr. **Whitten**. What was the outcome of these investigations?

Dr. **Gilles**. Two designated agencies were issued letters cautioning them about trade interference in agency operations. No problems were encountered with the other six designated agencies. Of the 23 individuals reviewed, 11 were issued waivers, 9 were resolved, and 3 were denied waivers.

CRIMINAL VIOLATIONS

Mr. **Whitten**. Were any criminal violations refered to the Office of the Inspector General last year?

Dr. **Gilles**. Five reports of possible criminal violations were reported to OIG in fiscal year 1985.

Mr. **Whitten**. If so, please describe in general terms the nature and outcome of these cases.

Dr. **Gilles**. I will supply for the record the nature and outcome of these cases.

[The information follows:]

CRIMINAL VIOLATIONS REFERRED TO OIG

Nature	Outcome
(a) Attempted bribery of a sampler by a truckdriver	U.S. Attorney declined to prosecute and administrative action was initiated against the truckdriver's firm.
(b) Undesirable finance practice by an official agency	OIG's audit did not indicate that any improprieties existed between the inspection agency and the grain company. Administrative action was initiated against the inspection agency.
(c) Attempted bribery of FGIS employees by a ship captain	OIG reminded the ship captain of the prohibitions against tendering gratuities to FGIS employees.
(d) Improper performance of duties by contract samplers under the AMA and unfair bid selection.	OIG declined to investigate. Program changes have been initiated to address the problem.
(e) Quality discrepancies and shortages in export processed grain products.	Investigation ongoing.

INSPECTION AND WEIGHING FEES

Mr. **Whitten**. In hearings last year you stated that you anticipated a 30 percent reduction in fees for supervision of inspection and weighing for fiscal year 1985. Did that occur, and what caused the change?

Dr. Gilles. Effective October 1, 1985, the fees for supervision of inspection and weighing services were reduced by approximately 40 percent. Reduced program operating costs and excess operating reserves necessitated this adjustment.

Mr. Whitten. Do you anticipate any change in the structure of the inspection and weighing fees in fiscal years 1986 and 1987?

Dr. Gilles. We do not anticipate any changes in the basic structure of the fees but adjustments may be necessary to recover FGIS's operating costs. However, possible expansion of user fees will be a consideration.

QUALITY CONTROL

Mr. Whitten. In fiscal year 1984 you implemented a national quality control program. Have you experienced any difference in quality control to date?

Dr. Gilles. In 1984, quality assurance specialist positions were established in each field office. During 1985, quality assurance specialists were appointed in most designated and delegated agencies. This expanded quality assurance network has improved quality control and provides a basis for further improvement as we introduce more automated data processing.

SUPPLEMENTAL APPROPRIATIONS

Mr. Whitten. Do you still anticipate repaying the remaining $2 million of the 1984 $6 million supplemental appropriations in fiscal year 1986?

Dr. Gilles. Yes, we plan to repay the $2 million balance in fiscal year 1986.

GRAIN EXPORTS

Mr. Whitten. Please provide volume figures for grain exports inspected for each of the past five fiscal years.

Dr. Gilles. I will provide volume figures for grain exports inspected for each of the past five fiscal years.

[The information follows:]

Grain exports

[In million metric tons]

Fiscal year:	
1981	131
1982	129
1983	114
1984	115
1985	101

INTERNATIONAL MONITORING

Mr. Whitten. Please provide for the record a summary of team activities, by country visited, for fiscal year 1985 and to date for fiscal year 1986. Please indicate the reason for the visit, the number of agency employees on each trip, and summarize the findings of the team for each trip.

Dr. GILLES. I will provide for the record a summary of foreign travel.

[The information follows:]

FGIS FOREIGN TRAVEL SUMMARY—FISCAL YEAR 1985

Number and purpose	Country visited	Date
1(a). One FGIS employee participated in U.S. Wheat Associates' Wheat Quality Seminar.	Portugal, France, Italy, The Netherlands, Norway, Yugoslavia, Switzerland and England.	Nov. 2–Nov. 20, 1984.
1(b). The same FGIS employee responded to the GDR government's complaints involving corn quality of two vessels. The shipments had heating corn and moldy corn.	German Democratic Republic	
2. One FGIS employee met with CONASUPO on inspection, weighing, and grain quality issues.	Manzanillo, Mexico	Nov. 30, 1984.
3. At the request of the Egyptian government and a shipper, one FGIS employee responded to complaints on quality of 5 vessels which were heating and badly damaged corn.	Egypt	Jan. 20–Jan. 24, 1985.
4(a). One FGIS employee responded to complaints on foreign material in soybeans and observed laboratory techniques and grain sampling methods.	Portugal	Apr. 15–Apr. 19, 1985.
4(b). The same FGIS employee participated in an international marketing seminar on cereals and oilseeds sponsored by U.S. Wheat Associates, U.S. Feeds Grain Council, U.S. Rice Council, and Sunflower Association.		
5. One FGIS employee attended a seminar on testing of bulk weighing equipment.	France	Apr. 22–Apr. 25, 1985.
6. One FGIS employee gave a presentation at a symposium on storage and handling of grandular foods.	France	Apr. 24–Apr. 26, 1985.
7. One FGIS employee participated in a discussion with trade officials on grain quality issues, i.e., foreign material, analytical measurements, heat damage kernels, and collaboratives studies.	Japan, Korea	May 13–May 23, 1985.
8. At the request of the Government of Kenya, one FGIS employee responded to a complaint on broken and foreign material in corn.	Kenya	May 25–June 7, 1985.
9. At the request of a shipper, one FGIS employee responded to a complaint on total defects in wheat and explained grain grading procedures. Syrian inspectors were found using the wrong equipment and procedures.	Syria	June 11–June 18, 1985.
10(a). Three FGIS employees attended an International Association of Cereal Chemists meeting, where U.S. grain quality concerns were discussed. They also visited national testing laboratories of importing countries.	Federal Republic of Germany, Norway, Italy, England, and The Netherlands.	May 19–June 8, 1985.
10(b). The same three FGIS employees responded to complaints on soybean quality, especially poor processing properties. They also explained the new changes in the soybean standards to users and importers.		
11. One FGIS employee gave a presentation at the 20th International Grain Industry Course at Canadian International Grains Institute.	Canada	June 26–June 27, 1985.
12. One FGIS employee gave a presentation to the Mexican Oils, Fats, and Protein Association on FGIS policies and procedures.	Mexico	June 26–June 28, 1985.
13. One FGIS employee, as Committee Chairman of the Cereals, Pulses, and Lentils Committee, attended a Codex Alimentarius Commission meeting.	Switzerland	July 1–July 10, 1985.

FGIS FOREIGN TRAVEL SUMMARY—FISCAL YEAR 1985—Continued

Number and purpose	Country visited	Date
14. One FGIS employee returned to Syria to followup on total defects in wheat complaints and to train Syrian inspectors on additional testing equipment a shipper had purchased.	Syria	July 20–Aug. 3, 1985.
15. One FGIS employee gave a presentation at the Conference for North African Wheat Importers on FGIS policies and procedures. The Conference was sponsored by U.S. Wheat Associates.	Portugal	Sept. 14–Sept. 21, 1985.
16. One FGIS employee, at the request of the Foreign Agricultural Service, monitored the unloading of a P.L. 480 rice vessel and tested the accuracy of weighing equipment and scales of receiving mills.	Philippines	Sept. 17–Sept. 29, 1985.

FOREIGN COMPLAINTS

Mr. WHITTEN. Please list the formal and informal complaints involving quality and quantity discrepancies filed in fiscal year 1985.

Dr. GILLES. I will provide a list of formal and informal complaints.

[The information follows:]

SUMMARY OF INSPECTION AND WEIGHING FOREIGN COMPLAINTS--FISCAL YEAR 1985

Country	Grain	F*	I*	Number of Complaints	Nature of Complaint
Africa					
Egypt	Corn	1		1	Moldy, Heating
Egypt	Wheat	1		1	Infestation
Kenya	Corn/Wheat		1	1	Infestation
South Africa	Corn	1	1	2	Heating, Aflatoxin, Moisture
Asia					
Japan	Soybeans		1	1	Foreign Material
Japan	Wheat	3		3	Dockage, Heat Damage
Korea	Corn	2	1	3	Broken Corn & Foreign Material
Korea	Soybeans	2	2	4	Quality, Damaged Kernels, Foreign Material, Test Weight
Korea	Wheat		1	1	Dusty
Thailand	Wheat		1	1	Low Protein
Europe					
Belgium	Soybeans		1	1	Damaged Kernels
E. Germany	Corn		1	1	Moldy, Sour
Greece	Soybeans		1	1	Foreign Material
Portugal	Corn	1		1	Quality, All Factors
Portugal	Corn	2		2	Short Weight
Portugal	Soybeans	7		7	Foreign Material, Damaged Kernels, Bulk Density
Spain	Soybeans	1		1	Infestation
United Kingdom	Wheat	1		1	Low Protein 1/
W. Germany	Soybeans	9	1	10	Damaged Kernels, Foreign Material, Moisture
Latin America					
Chile	Wheat	2		2	Infestation
Columbia	Wheat		1	1	Foreign Material
Costa Rica	Wheat		1	1	Class, Dockage, Test Weight, Moisture
Ecuador	Wheat	1		1	Low Protein
Ecuador	Wheat	1		1	Short Weight
El Salvador	Wheat		1	1	Infestation
Jamaica	Wheat		1	1	Dockage
Mexico	Corn		5	5	Heating, Moldy, Broken Corn and Foreign Material
Mexico	Soybeans		2	2	Quality, Foreign Material
Mexico	Sunflower		1	1	Oil Content, Foreign Material
Peru	Corn	1		1	Broken Corn and Foreign Material

SUMMARY OF INSPECTION AND WEIGHING FOREIGN COMPLAINTS--FISCAL YEAR 1985 Continued

Country	Grain	F*	I*	Number of Complaints	Nature of Complaint
Latin America-Continued					
Peru	Wheat		1	1	Foreign Material
Uruguay	Wheat		1	1	Infestation
Venezuela	Corn	2	2	4	Mold Damage, Damaged Kernels Broken Corn and Foreign Material, Cockleburs
Venezuela	Soybeans	3		3	Damaged Kernels, Foreign Material
Middle East					
Cyprus	Corn	1		1	Infestation
Israel	Soybeans	1	1	2	Damaged Kernels, Moisture
Syria	Wheat	1	1	2	Quality, Total Defects
	TOTALS	44	30	74	

1/ Valid complaint, corrected certificate issued.

*F - A Formal Complaint is recorded when a Form FAS-802, "Foreign Agricultural Service (FAS) Foreign Trade Discrepancy Inquiry (Grain, oilseeds, and other commodities)" is received by FGIS.

*I - An Informal Complaint is recorded when an inquiry, either verbal or written, is submitted through the Attache or FAS to FGIS.

NOTE: Excessive rains prior to and during harvest of the 1984 corn and soybean crops in certain areas resulted in crops with higher moisture content than previous years. This resulted in slightly higher damage and higher moisture contents than the buyer had been receiving in previous years' lots for the same grade, but the grain lots shipped were still within the grade limits.

Generally, foreign buyers have come to recognize the levels of grain quality that the official U.S. grades represent. In some cases, however, buyers have a preconceived concept of what the grain quality should be. When it does not meet these expectations, they complain-- even if the quality is within the grade limits.

Mr. WHITTEN. How were these complaints resolved?

Dr. GILLES. FGIS resolves valid weight complaints by issuing new weight certificates. We do not arbitrate disputes. FGIS reports all factual information obtained from reviewing weighing data, inspection logs and certificates, and if samples are available, we perform an analysis and compare the results with the original funding.

RESEARCH

Mr. WHITTEN. What was the nature of each research contract executed by FGIS in fiscal year 1985, with whom are the contracts executed, and what was the amount of each contract?

Dr. GILLES. During fiscal year 1985, FGIS placed three outside research contracts and three reimbursable agreements. The contracts were: one, the Objective Determination of Foreign Odors in Grain. The continued use of the human nose to detect and classify foreign odors in grain is neither objective nor safe. A contract has been awarded to Southern Research Corporation for $267,000. The purpose was to develop instrumentation to be used to detect and identify foreign odors in grain.

Second, a contract was written the purpose of which was the accumulation of literature, worldwide, covering equipment available for the removal of "foreign material" from grain. After this literature has been received and classified, the contractor is to evaluate all systems from the standpoint of acceptability for possible use in the inspection system, taking into account the present U.S. procedures, foreign systems, and the needs of the trade. The contractor shall then make a recommendation that three selected pieces of equipment be purchased for full scale investigation by FGIS. This contract was with Kansas State University and totaled $59,182.

The last outside contract, with Maranitra Research located in West Virginia for $43,000, involved an evaluation of existing moisture methods in use for the determination of moisture in cereal grains and the recommendation of two of these procedures for further research. These two procedures would have possible use by FGIS as reference methods for the determination of moisture in grain.

The three reimbursable agreements put in place were as follows: one, an agreement to continue the development of objective methodology for use in the classing of hard and soft wheats. This work continues to be an extremely important effort and three research areas are cooperating.

Next, an agreement was written to determine the Impact of Toxic Weed Seeds on the Suitability for use as Human and Animal Food, of any grain containing these seeds. There are many reports in the literature of the general effect of consumption of certain "toxic seeds" but the results are usually of a qualitative nature. FGIS needs more information of a quantitative nature, on the effects of these seeds.

The last reimbursable agreement was placed to develop the necessary instrumentation to measure moisture in corn on a single kernel basis. The blending of corn with widely divergent moisture levels, one level of which is usually very high, has, on occasion, caused a deterioration of corn quality. FGIS needs to be able to detect these blends during the inspection process.

Reimbursable agreements are all with the Agricultural Research Service. The FGIS contribution represents only a portion of the fiscal outlay for the project. The Toxic Seed agreement was signed in July 1985 with ARS in Berkeley, California, and represented an outlay of $60,000 from FGIS. The Classification project research is being done in part at the University of Nebraska, with $25,000 in funding through ARS. The third agreement, the single kernel corn moisture project was signed in July 1985 and provided $75,000 in funding for the ARS laboratory in Athens, Georgia.

CONSULTANTS

Mr. **Whitten**. Please update the table in last year's hearing record of consultants and associated costs used by FGIS in fiscal year 1985.

Dr. **Gilles**. FGIS did not utilize consulting services in fiscal year 1985. Therefore, the table remains unchanged since it was last published.

[The information follows:]

FGIS CONSULTANTS

Program	Consultant	Date	Amount
FGIS billings and collections system	Booz-Allen, Inc.	1977	$75,000
Grain Weighing Handbook	R.D. Thompson	1977	5,000
A management review of FGIS	Andrew Laurie	1977	6,000
Grain Weighing Program development	Walter Watson	1977-78	3,000

DELEGATED AUTHORITY

Mr. **Whitten**. For the record please list the 8 States and 82 designated State and private agencies that have been delegated authority for weighing and inspection services.

Dr. **Gilles**. I will supply that information for the record.

[The information follows:]

FGIS Delegations of Authority

DELEGATED/DESIGNATED* STATES (8)

Alabama Department of Agriculture and Industries.*
California Department of Food and Agriculture (Federal/State Agreement).*
Minnesota Department of Agriculture.*
Mississippi Department of Agriculture and Commerce.*
South Carolina Department of Agriculture.
Virginia Department of Agriculture and Consumer Services.*
Washington Department of Agriculture (Federal/State Agreement).*
Wisconsin Department of Agriculture, Trade and Consumer Protection.*

DESIGNATED STATES (13)

Alaska Department of Natural Resources, Division of Agriculture.
Connecticut Department of Agriculture.
Georgia Department of Agriculture.*

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*Designated for both inspection and weighing services.

Kansas State Grain Inspection Department.
Louisiana Department of Agriculture.*
Maine Department of Agriculture.
Missouri Department of Agriculture.
Montana Department of Agriculture.
New York State Department of Agriculture and Markets.
North Carolina Department of Agriculture.
Oregon Department of Agriculture.
Utah Department of Agriculture.
Wyoming Department of Agriculture.

DESIGNATED PRIVATE AGENCIES (61)

Aberdeen Grain Inspection, Inc.
Agriculture Seed Laboratories, Inc.
Alton Grain Inspection Department.
Alva Grain Inspection Department.
Amarillo Grain Exchange, Inc.
Bloomington Grain Inspection Department.
D. L. Boltenhouse Grain Inspection Service.
Cairo Grain Inspection Agency, Inc.
Cedar Rapids Grain Service, Inc.
Central Iowa Grain Inspection Service, Inc.
Champaign-Danville Grain Inspection Departments, Inc.
Chattanooga Grain Inspection Company, Inc.*
Columbus Grain Inspection, Inc.
Decatur Grain Inspection, Inc.
Denver Grain Insection.
Detroit Grain Inspection Service, Inc.
East Indiana Grain Inspection, Inc.
Eastern Iowa Grain Inspection and Weighing Service, Inc.
Enid Grain Inspection Company, Inc.
Farwell Grain Inspection Company.
Ft. Smith-Van Buren Grain Inspection Service.
Fostoria Grain Inspection.
Frankfort Grain Inspection, Inc.*
Fremont Grain Inspection Department, Inc.
Gibson City Grain Inspection Department.
Grain Inspection Inc. (Jamestown).
Grain Inspection Services, Inc. (Battle Creek).
Grand Forks Grain Inspection Department.
R. A. Gray Grain Inspection Service, Inc.
Hastings Grain Inspection, Inc.
Idaho Grain Inspection Service.
Indianapolis Grain Inspection & Weighing Service, Inc.
Jinks Grain Weighing Service.**
Kankakee Grain Inspection Bureau, Inc.
Keokuk Grain Inspection Service, Inc.
Lewiston Grain Inspection Service, Inc.
Lima Grain Inspection Service, Inc.
Lincoln Inspection Service, Inc.[2]
Little Rock Grain Exchange Trust.[1]
Los Angeles Grain Inspection Service, Inc.[2]
Louisville Grain Inspection Service, Inc.[2]
Lubbock Grain Inspection and Weighing.
John R. McCrea Agency.
McGregor Grain Inspection and Weighing Corporation, Inc.
Memphis Grain and Hay Association.[3]
Minot Grain Inspection Service, Inc.
North Dakota Grain Inspection Service, Inc.
Ohio Valley Grain Inspection.
Omaha Grain Inspection Service, Inc.[2]

**Designated for weighing services only.

[1] Trust.

[2] Subsidiary/trust.

[3] Subsidiary.

Paris Illinois Grain Inspection.
Peoria Grain Inspection Service, Inc.[4]
Plainview Grain Inspection and Weighing Service, Inc.
Quincy Grain Inspection & Weighing Service.
D. R. Schaal Agency.
Schneider Inspection Service, Inc.
Sioux City Inspection and Weighing Agency, Inc.[2]
Southern Illinois Grain Inspection Service, Inc.
Springfield Grain Inspection Department.
A. V. Tischer and Son, Inc.[4]
Titus Grain Inspection, Inc.
Tri-State Grain Inspection Service, Inc.

Mr. WHITTEN. In 1984 you modified delegation of authority documents with California, and Washington. Please describe for us the impacts and assessment of the modification.

Dr. GILLES. The modified delegations eliminated the need for a local FGIS field office staff by increasing State responsibility and establishing an FGIS manager position that directly collaborates with State management in carrying out the provisions of the State delegation thereby decreasing the State's user fee assessment.

Mr. WHITTEN. Do you propose to modify other delegations?

Dr. GILLES. We propose to offer this modified delegation to the remaining six delegated states.

APPEAL INSPECTIONS

Mr. WHITTEN. How many appeals of original grain inspections were referred to the Board of Appeals in fiscal year 1985, and what was the outcome of these appeals?

Dr. GILLES. During fiscal year 1985, 1,288 field appeals—857 grade and 431 protein—were referred to the Board of Appeals and Review. The appeal grades were sustained in 635 or 74 percent of the Board appeals.

EDB TESTING

Mr. WHITTEN. Do you still test grain samples for the presence of EDB? If so, have any tests indicated tolerance levels above EPA guidelines?

Dr. GILLES. FGIS provides testing of grain samples for EDB upon request. In addition, we randomly select samples for EDB testing. None of the 1,218 samples tested during calendar year 1985 exceeded EPA guidelines of 900 parts per billion—ppb. EDB test results ranged from none detected to 110 ppb with a mean of less than 1.0 ppb.

AFLATOXIN TESTING

Mr. WHITTEN. The explanatory notes state that you have established TLC laboratories in Westwego, Louisiana; Mobile, Alabama; and Norfolk, Virginia. What was the start-up cost of each and how many people are employed in each laboratory?

Dr. GILLES. The grain industry provided space and equipment for the TLC laboratories in Norfolk and Westwego and provided space for the lab in Mobile. FGIS incurred no direct start-up costs for the Norfolk and Westwego labs. The Mobile lab had an initial start-up cost of approximately $8,000 in equipment and supplies. All three labs operate on a fee-supported basis. FGIS estimates using 0.1 of a staff-year at the Westwego lab, 0.7 staff-years at the Mobile lab, and 0.5 staff-years at Norfolk.

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[4] Not-for-profit corporation.

Mr. **Whitten**. How much space for TLC laboratories is provided by the grain industry?

Dr. **Gilles**. The grain industry provided 180 square feet of space for the Westwego TLC Lab, 511 square feet for Mobile, and 192 square feet for Norfolk.

Mr. **Whitten**. How do you monitor potential conflict of interest in this situation?

Dr. **Gilles**. The grain industry provided FGIS with space and, in two instances, equipment with the understanding that FGIS would have sole control and use of the laboratory.

OBJECT CLASSIFICATION TABLE

Mr. **Whitten**. Please provide for the record an object classification table for the user fee fund for fiscal years 1984, 1985, 1986, and proposal for 1987.

Dr. **Gilles**. I will provide an object classification table for the fee supported fund for fiscal years 1984 through 1987 for the record.

[The information follows:]

USER FEES—CLASSIFICATION BY OBJECTS

[Dollar amounts in thousands]

	1984 actual	1985 actual	1986 estimate	1987 estimate
Personnel compensation:				
Full-time permanent	$17,545	$17,432	$20,234	$20,207
Other than full-time permanent	502	587	678	678
Other personnel compensation	2,719	2,891	3,356	3,356
Total personnel compensation	20,766	20,910	24,268	24,241
Personnel benefits: Civilian	2,892	2,591	3,014	3,014
Benefits for former personnel	362	194	225	225
Travel and transportation of persons	743	914	1,058	1,058
Transportation of things	127	117	133	133
Standard level user charges	430	679	678	678
Rental payments to others	183	360	359	359
Communications, utilities and miscellaneous charges	1,085	1,485	1,886	1,886
Printing and reproduction	146	164	188	188
Other services	2,559	3,447	3,995	3,995
Supplies and materials	304	428	494	494
Equipment	96	475	549	549
Insurance claims and indemnities	8	9	9	9
Total obligations	[1] 29,701	[2] 31,773	36,856	36,829

[1] Fiscal Year 1984 program operations generated obligations of $30,931,818 and revenues of $32,904,939 with a positive margin of $1,973,121. Unrealized prior year obligations and revenues reduced obligations by $1,230,863 and revenues by $321,750.

[2] Fiscal Year 1985 program operations generated obligations of $31,467,121 and revenues of $31,730,663 with a positive margin of $263,542. Unrealized prior year obligations and revenues reduced obligations by $305,433 and revenues by $703,041.

Mr. **Whitten**. Please also provide for the record an object classification table combining both user fee funds and appropriated funds for the same years.

Dr. **Gilles**. I will supply an object classification table for the user fee and appropriated funds for fiscal years 1984 through 1987 for the record.

[The information follows:]

TOTAL USER FEES AND APPROPRIATED FUNDS—CLASSIFICATION BY OBJECTS

[Dollar amounts in thousands]

	1984 actual	1985 actual	1986 estimate	1987 estimate
Personnel compensation:				
Full-time permanent	$21,199	$21,141	$24,320	$24,275
Other than full time permanent	511	593	713	713
Other personnel compensation	2,740	2,907	3,365	3,365
Total personnel compensation	24,450	24,641	28,398	28,353
Personnel benefits: Civilian	3,424	3,084	3,588	3,582
Benefits for former personnel	461	266	325	325
Travel and transportation of persons	1,019	1,168	1,426	1,426
Transportation of things	150	140	165	165
Standard level user charges	430	679	678	678
Rental payments to others	232	389	391	391
Communications, utilities and miscellaneous charges	1,272	1,710	2,184	2,184
Printing and reproduction	193	201	275	275
Other services	4,116	4,833	5,085	5,085
Supplies and materials	409	557	611	611
Equipment	298	781	724	724
Insurance claims and indemnities	8	9	9	9
Total obligations	[1] 36,462	[2] 38,458	43,859	43,808

[1] Fiscal Year 1984 appropriated and fee supported program operations generated obligations of $37,693,105. Fiscal Year 1984 revenues and appropriations totaled $39,666,226 with a positive margin of $1,973,121.

[2] Fiscal Year 1985 appropriated and fee supported program operations generated obligations of $38,152,189. Fiscal Year 1985 revenues and appropriations totaled $38,415,731 with a positive margin of $263,542.

GRAIN EXPLOSIONS

Mr. WHITTEN. Please provide for the record a list of grain explosions that occurred in 1985. Please list where they occurred, the number of people injured, and probable cause and estimate of loss.

Dr. GILLES. The following table presents grain dust explosions reported to FGIS during calendar year 1985. The reports were received through the cooperation of FGIS personnel, insurers, trade groups, universities, and a news clipping service. FGIS does not investigate grain dust explosions, the determination of property damage and probable cause would be difficult to substantiate and is therefore not collected.

[The information follows:]

SUMMARY OF REPORTED GRAIN DUST EXPLOSIONS CALENDAR YEAR 1985

Number and location	Date	Number of injuries	Number of deaths
1. Farmers Coop Business, Shelby, Nebr	Jan. 2, 1985	2	0
2. Farmers Coop Grain Assoc., Stromsberg, Nebr	Jan. 17, 1985	0	0
3. Bunge Corp., Old Shawneetown, Ill	Jan. 25, 1985	0	0
4. Early & Daniel, Cincinnati, Ohio	Feb. 6, 1985	0	0
5. Comstock Farmers Elevator, Comstock, Minn	Feb. 18, 1985	3	0
6. Farmers Coop Elevator, Muleshoe, Tex	Mar. 12, 1985	0	0
7. Davenport Grain Co., Davenport, Nebr	Apr. 2, 1985	2	0
8. Martin Grain Inc., Taylor Ridge, Ill	May 3, 1985	0	0
9. Shickley Grain Co., Shickley, Nebr	May 15, 1985	1	0
10. Galva Coop Grain & Sup., Galva, Ill	June 3, 1985	0	0
11. ADM, Clinton, Iowa	June 12, 1985	1	0
12. Pillsbury, Browns, Ill	Aug. 7, 1985	1	0

SUMMARY OF REPORTED GRAIN DUST EXPLOSIONS CALENDAR YEAR 1985—Continued

Number and location	Date	Number of injuries	Number of deaths
13. Buffalo Lake Farmers Co., Buffalo Lake, Minn	Oct. 15, 1985	1	0
14. Carroll Country Farm Bur., Flora, Ind	Oct. 15, 1985	2	0
15. Farmers Coop Grain Asn., Marion, S. Dak	Nov. 2, 1985	4	3
16. Mid-State Terminal, Ottawa Lake, Mich	Nov. 2, 1985	0	0
17. Halford Feedlot, Colby, Kans	Nov. 3, 1985	1	0
18. Central Soya, Baltimore, Md	Nov. 9, 1985	1	[1] 1
19. Producers Rice Mill, Stuttgart, Ark	Nov. 27, 1985	1	0
20. Cargill, Dayton, Ohio	Nov. 29, 1985	0	0
21. DeKalb Co. Farm Bureau, Waterloo, Ind	Dec. 9, 1985	0	0
22. Hubinger, Keokuk, Iowa	Dec. 31, 1985	0	0
Total		20	4

[1] This was the only facility where FGIS employees were present. No FGIS employees were injured.

DOCKAGE PROCEDURES

Mr. WHITTEN. Last year in the record you stated the Economic Research Service was analyzing data regarding change in the dockage procedures. Has this analysis been completed? If so, please present the results for the record.

Dr. GILLES. Yes, in December 1985 the Economic Research Service completed the analysis and ARS staff economist, Dr. Mack N. Leath, issued a report titled "Economic Implications of Alternative Methods of Certificating Dockage in U.S. Wheat: An Executive Summary".

[CLERK'S NOTE: The Executive Summary appears on pages 71 through 100.]

USER FEES

Mr. WHITTEN. Mrs. Smith?

Mrs. SMITH. Thank you, Mr. Chairman.

Welcome, Mr. Gilles, and welcome to all of you.

Following up for a moment on your discussion about user fees, would you comment about how in the past or currently, the costs of user fees have been passed on to the consumers or to the producers?

Dr. GILLES. The user fee level at the present time, Mrs. Smith, is running at approximately 84 percent of our total resources. And the basis for the user fee is the hours of time plus any travel and accrued charges that are associated with the service provided.

We use the term "applicant," and the applicant would pay the fee. The applicant may be a grain company. It most likely is. And our charge would be incorporated into their charges, which would eventually be taken into consideration when the accounts are settled at the farm level.

So the absorption of our charge could be in the grain company and it could be also, in part, by the producers.

GRAIN QUALITY

Mrs. SMITH. I see. Now, of course, we realize that as we become more competitive in world markets, our grain will still be the most expensive in the world. We should try to keep all sales of U.S. grain the best quality possible.

I noted what you said in your statement about the increased consciousness about the grain quality. Do you think that has been helpful to the United States in retaining at least some of our world markets? And how does the quality of the grain that we export compare to the quality of grain that is exported by other grain-exporting countries?

Mr. Gilles. Well, those are very perceptive questions, Mrs. Smith. I think, with respect to the latter point, if I might start there, a news article just passed my desk this morning in which it was stated that Russia had just turned down some 100,000 metric tons I believe it was, of French wheat because the moisture content exceeded the contract specification of 14.5 percent. I say this only to indicate that other exporting countries also note an enhanced interest in quality and condition.

I think in terms of the discussion that has occurred within the last year or year and a half, generally it is good because I believe people are saying we all have a role in the maintenance of quality and condition of grain. And through this type of discussion, which probably is occurring now, in part, through the encouragement of the action that Congress has taken in the last year, people are talking about the issue and seeking solutions which ultimately may lead to changes in the grain standards. If this can occur, it will benefit the system.

Mrs. Smith. I note this occurring in my district. Of course, you know I come from the second most agricultural district in the nation, and it is a heavily grain-producing district—and of course, very hard up because of this. But I am asked a great deal about grain quality as I go across the district, and people say to me things like, "Well, we raise top-quality grain. The grain we sell doesn't have anything in it except maybe a little dust. How come all this sand and gravel and foreign matter is in it when it gets over to a foreign market?"

Do you have any comment about that?

Dr. Gilles. Yes, ma'am. Mr. Irv Friehe, from the State of Nebraska——

Mrs. Smith. Yes, he's in my district.

Dr. Gilles [continuing]. And I had an opportunity to go to Russia just a few months ago, and we saw firsthand some of these challenges, and we had an occasion to visit during the two weeks or so that we were together.

I think it important to recognize that the report that we alluded to earlier also had a survey of what is being delivered by the farmer to the elevator system.

And in general, your statement is absolutely correct; most of the grain that's delivered is of good quality. In fact, if you speak of wheat, about 92 percent of the grain that moves from the farm has less than two percent dockage. But that remaining eight percent will have as much as 60 percent dockage. At 60 percent, it doesn't even grade as wheat.

But nevertheless, I think that one of the things that we have been able to show through the study is that we need to encourage those people who are marginal producers to clean up their act. If the dockage doesn't get into the system, it won't move through the system.

So I think we need to look at two areas. One is to clean up that which we have as a problem, and also to prevent it from entering into the system.

DOCKAGE CERTIFICATION

Mrs. SMITH. I notice you stated in your testimony that it was the wish of agricultural organizations, foreign buyers, and other individuals, as well as the FGIS advisory committee to change the certificate dockage to the nearest one-tenth of a percent. Has this come about? If not, why not? What other problems do you face?

Dr. GILLES. Two years ago, you may recall, we proposed changing the manner in which dockage would be certificated. At that time it was not readily accepted by members of the trade, including producers. We indicated that we would do some study, and when additional information was available, offer some alternatives.

We did have a public hearing in Denver in January, and the preponderance of the people that appeared at that hearing supported the expression of dockage on the one-tenth percent basis.

Basically, the producers that were present, as well as foreign buyers from Japan, Venezuela and a number of other countries, including Israel, said that it is unrealistic in this time and age for a major exporter such as the United States to underreport dockage. I think 24 out of 26 people stated in favor of this change.

It was further stated, as we talked to people, that it would be most desirable to have any change in the standards made at a time so that all grain that was harvested in a year would operate under the same standards. So the target date for change is May 1987.

And the final issue is that we have received recommendations from several of the producer groups. And at the present time the North American Export Grain Association is conducting workshops in which participants are not only the grain people but the producers and they are to have recommendations to the department by May 1986.

Mrs. SMITH. Now how does this relate to the study that was provided for in the farm bill which passed last December? I understand that this study is currently being done. Let me say, Mr. Gilles, I am aware that Congress always wants to study everything to death. But I would like to encourage you to get that study completed just as quickly as possible so that we can start to move on, even though you do have until next December to complete it. I do think this is something that needs to be handled expeditiously.

Are there any efforts in your department to look into limiting available export incentives only to higher-quality grain?

Dr. GILLES. With respect to the congressional position, we are aware that the farm bill has a section that encourages the Office of Technology Assessment to conduct this study, and the department is to assist them. We have been in contact with the Office of Technology Assessment and have indicated to them that we would be pleased to pursue any course of event to facilitate their study. They have the leadership in this situation.

Mrs. SMITH. Yes, I understand that.

Dr. Gilles. With respect to encouragement, we have appeared before a number of groups and talked about various possibilities of an inducement for some type of an incentive for people to deliver better-quality grain. The consensus seems to be that this is an issue that can best be solved by the trade because the financial inducement is primarily the one that they think is the most effective.

ELEVATOR SAFETY

Mrs. Smith. Just one more question. Have there been efforts in your department to address the issue of grain elevator explosions?

Dr. Gilles. Yes, ma'am. There is a continuing coordinating committee, operating within the department as we have for the last several years, and this past year the number of explosions have increased relative to the previous year. We have endeavored to find the reasons for that increase. However, we don't have any clear-cut pattern.

But if one compares the problems of the late '70's with what we have been experiencing recently, we still are operating at a much lower level than it was in the last decade.

Mrs. Smith. Well, I am glad to know that.

Mr. Gilles. But we are concerned.

Mrs. Smith. Thank you, Mr. Chairman. I have no more questions.

Mr. Whitten. Any questions, Mr. Smith?

FOREIGN MATERIAL

Mr. Smith. Yes, thank you, Mr. Chairman.

I am back to my same old questions that I have had for years, and they relate to the same two questions the chairman has asked and Mrs. Smith has asked. And with all due respect, Mr. Gilles, your answers are not responsive to the questions. We have been getting these same excuses and same answers for year after year after year.

This problem has been with us since 1976. I was the original sponsor of the grain inspection bill. We had the problem then. With a promise to study it and do something about it—they took out of the bill the section that would have prohibited adding foreign material. We're not talking about blending now. Every time I talk about this, somebody wants to talk about blending or they want to talk about moisture or something else.

We're talking about adding foreign material at export points. And we're not talking about rural elevators either; we're talking about adding at the export points. I have seen them do it. They take the dust out as it goes into the elevator or into the storage place, and when it goes on the belt to go into the ship, they add it back in. You can't believe it's the same material.

Now, you responded to Mrs. Smith there by talking about eight percent that was delivered to the rural elevator had a lot of dockage in it. That wasn't paid for as wheat either. They paid for it for the quality it was. And that's no excuse for them down at New Orleans cleaning that up and then taking that dirt and dumping it into some cleaner grain. And that's what they're doing.

They don't even just stop at that. They start adding rice hulls and things that are completely foreign to the grain that they're selling.

And this thing of responding by saying that 96 percent of the exports in 1985 were Number 2 or better, that just means that they've got the kind of equipment that permits them to add the maximum amount of dust without going over the limit. That's all that means. That doesn't mean they didn't add it. They did, and they're doing it all the time and we know they're doing it, and we're getting complaints about it.

Now, we depend upon these big exporters, private exporters selling our grain. And that's our system, and that's okay. But we have to depend on the Department of Agriculture to protect the reputation of American grain, and you haven't been doing it.

If you can't do it without a change in the law, then you ought to support a change in the law. We need to do something about it because the American farmer is the one that's being hurt.

Of course, whenever exporters can add foreign material and get grain price for it, they're going to do it as long as they can.

Now, you referred to the amount that was Number 1 and Number 2. I was in Venezuela, and they told me that they wanted to buy Number 1 corn. Our exporters won't sell it to them. They'd pay the premium to get it. They say, "Well, you'll take Number 2 or Number 3. That's what's available. And if you want American grain and they have to get it through our subsidized program, then that's all you're going to get."

So we're depending on these exporters. They're between the producer and the foreign buyer, and the only way we can protect our American farmer is for you to do your job. You know, I am really getting kind of tired of it. This is nine years now, and still we have excuses about we're going to have another study and it's up to the private grain trade.

Sometime we've got to get around to the idea that you're supposed to protect the American farmer. You're not just there to make excuses for the grain trade. I just think that you're not doing your job, and you either ought to do it or else you ought to support some kind of legislation if you need it, and we'll do it.

Mrs. SMITH. Would the gentleman yield?

Mr. SMITH. Yes.

Mrs. SMITH. You spoke of the fact that if we can't get this done administratively, maybe we ought to have a law.

Mr. SMITH. Sure.

Mrs. SMITH. And we all know that our colleague Mr. Evans from Iowa has introduced H.R. 4139——

Mr. SMITH. Yes. He took my bill and improved it, yes.

Mrs. SMITH [continuing]. Which is a very simple bill. I wondered if you would want to comment, and I would like to have Mr. Gilles' comment.

Mr. SMITH. I would like to have them say they'll support it, that they'll support my bill or his bill or any bill. We ought to get on the line.

Mrs. SMITH. Would you comment, Mr. Gilles, about this?

Dr. **Gilles**. Yes, ma'am. I am already on record in support of Cooper Evans' amendment in the 1985 House version of the Farm Bill debated last summer.

Mr. **Whitten**. Get on both sides. I'll join you. [Laughter.]

Mr. **Smith**. Well, let's get it passed. Let's don't hear that we need another study or that this is best solved by the grain trade or that it's some other department that needs to do it. Let's get on line and support this kind of change.

Now, we didn't get that kind of support when that farm bill was in conference in December. I didn't hear anything at all about the trade except that the trade wanted to delay and they gave any kind of excuse, and the department didn't come across and say we want this. If you would have wanted it in that conference then——

Dr. **Gilles**. I would like to comment, sir.

Mr. **Smith**. Yes.

Dr. **Gilles**. I think if you look at the record, you will find that I did have an opportunity, and I was given one minute or so to comment, and I did indicate that our position was to support the Cooper Evans amendment that would have prevented the addition of foreign material to grain.

Mrs. **Smith**. Would the gentleman yield for another question?

Mr. **Smith**. Go ahead.

Mrs. **Smith**. I wonder if you could be helpful to us in this regard by sending us a letter that we could use in writing to our colleagues, showing that you do support this kind of a legislative approach?

Dr. **Gilles**. We would be happy to do so. I will send you a copy as soon as I return to my office.

Mrs. **Smith**. Thank you very much.

[The information follows:]

United States
Department of
Agriculture

Federal Grain
Inspection
Service

Washington,
D.C.
20250

March 14, 1986

Honorable Jamie Whitten
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

At the budget hearing for the Federal Grain Inspection Service held March 12, 1986, members of your committee requested a letter regarding the position of the United States Department of Agriculture on the issue of introduction or re-introduction of dockage and foreign materials to grain.

During the House Agriculture Committee mark-up hearings on the Farm Bill, (HR 2100), Congressman Cooper Evans proposed an amendment on July 30, 1985 concerning introduction of foreign material, which ultimately became Section 1872. In anticipation of questioning on this issue, an outline of the USDA's position was prepared, which we have enclosed, along with a copy of the Evans amendment. A copy of the transcript was sent to us for correction and was returned to the committee.

In view of the above event, the USDA's position does not favor the introduction or re-introduction of foreign materials to grain anywhere in the marketing system.

Sincerely,

Kenneth A. Gilles
Administrator

Enclosures

cc: Honorable Virginia Smith
Honorable Neal Smith

The Federal Grain Inspection Service
is an agency of the
United States Department of Agriculture

USDA'S Position on Evans' Amendment to the 1985 Farm Bill

USDA is generally supportive of the Evans' amendment to Section 13 of the Grain Standards Act. It encourages better grain handling practices which will facilitate marketing by improving product quality.

The Amendment:

- Is consistent with the directive contained in the 1985 House Appropriations Committee Report No. 99 (p. 44) that the Agency (FGIS) monitor and prohibit foreign additives.
- Is consistent with the position of the National Commission on Agricultural Trade and Export Policies. The Executive Summary of the Interim Report to the President and the Congress (p. 6) states that..."The Commission recommends that legislation be included in the 1985 Farm Bill that...(b) stresses the commitment of the United States to maintaining (i) competitiveness, (ii) reliability of supply, (iii) an assurance of quality of product, and (iv) the principle of fair trade."
- Addresses the issue of foreign material which is the single largest source of complaints for corn and soybeans.
- Addresses the sensitive issue of moisture content by establishing limits for blending grain of different moisture contents. Moreover, by excluding the addition of water, The Grain Standards Act will be consistent with the FDA regulation concerning adulterations.
- Provides for assessment of penalties for violations, both Civil (Section 10) and Criminal (Section 14).

USDA Has Concerns About the Evans Amendment

1. Enforcement:

   a. Because the Agency (FGIS) has limited personnel and grain inspection is voluntary in the interior, the Agency has limited resources to enforce this Amendment. The Agency proposes that the industry be responsible for self-enforcement.

   b. Instrumentation is not available to determine quickly the moisture range within a lot of grain. We can determine the average moisture content of a representative sample. However, we believe that blending within the 4 percentum range is reasonable at this time.

2. Concern:

   Concerning paragraph (E), we respectively ask for an interpretation of what was intended.

Would this paragraph (E), which is very broad in its meaning, require costly research to prove whether the "other foreign material" was or was not "neutral", "constructive", and in the interest of the grain producers?

Would this paragraph (E) intensify approaches made to the Administrator on behalf of various products and schemes allegedly to enhance grain quality?

(Possibly ask - if the words, "other foreign" could be removed and, thereby, create a positive connotation?)

Subtitle F—Grain Inspection

GRAIN STANDARDS

Sec. 1871. Section 4 of the United States Grain Standards Act (7 U.S.C. 76) is amended by adding at the end thereof the following:

"(c) If the Government of any country requests that moisture content remain a criterion in the official grade designations of grain, such criterion shall be included in determining the official grade designation of grain shipped to such country.

"(d) The Administrator shall issue regulations establishing a new grade for each type of grain that exceeds the standards in effect on September 30, 1985, for United States No. 1 grade of such grain.".

IMPROVED QUALITY STANDARDS FOR EXPORTED GRAIN

Sec. 1872. Section 6 of the United States Grain Standards Act (7 U.S.C. 78) is amended by adding at the end thereof the following:

"(c)(1) To protect the quality of grain exported from the United States, no dockage or foreign material (including but not limited to dust or particles of whatever origin) once removed from grain shall be recombined with any grain when there is a possibility that the recombined product may be exported from the United States; and no dockage or foreign material of any origin may be added to any grain that may be exported when the result will be to reduce the grade or quality of the grain or to reduce its ability to resist spoilage.

"(2) Nothing in paragraph (1) shall be construed to prohibit—

"(A) the treatment of grain to suppress, destroy, or prevent insects and fungi injurious to stored grain;

"(B) the export of dockage or foreign material removed from grain when such dockage or foreign material is pelletized or a part of a processed ration for livestock, poultry, or fish and is exported separately and uncombined with any whole grain;

"(C) the blending of grain with similar grain of a different grade to adjust the quality of the resulting mixture;

"(D) the addition to grain of confetti, or any other material that serves the same purpose, in an amount necessary to facilitate identification of ownership or origin of a particular lot of grain; and

"(E) the addition of any other foreign material that may be determined by the Secretary to be in the interest of grain producers and to be neutral or constructive in achieving the goal of protecting the quality of grain exported from the United States.

"(3) Adjustment of the moisture content of grain that may be exported is permitted by the blending of such grain with a similar grain of different moisture content if the difference between the moisture contents of the grains being blended does not exceed 4 per centum, but the addition of water to grain that may be exported is prohibited except by aeration of such grain with natural air.".

Mr. SMITH. Just say you support X bill, whatever bill it is, his or mine or both or whichever you want to do, and we just need to get on with this thing because it's been nine years now and we're still talking about this.

We're hurting our markets. There isn't any question about it. Any country you go to, they say, "Well, I know I bought Number 2 or I bought Number 3 or whatever it was, but I didn't expect them to add dust and dirt to it." And they know they did.

And our farmers have finally awakened to the fact, including the commodity organizations—they weren't awakened till last year, but I think they're finally awakened to the fact because their exports are down and they're awakened to the fact now that this has been going on. And we just can't keep this up because we're just the seller of last resort as long as we have this kind of grain.

And there's something to it. I mean it's just not somebody complaining because there's surplus of grain for sale. The fact of the matter is that when it comes out of that ship, it isn't as good when it's American grain in very many, many cases.

Dr. GILLES. Mr. Chairman, might I comment? Again, referring to the studies that we have done on grain that is moved from the farm to the first elevator. If you look at the data, again relative to dockage in wheat, because that was perhaps one of the most controversial, the amount of dockage in wheat was approximately one percent at that point.

Mr. SMITH. Right.

Dr. GILLES. The amount of dockage that is exported from the United States is about six-tenths of a percent, which would suggest that there is cleaning going on in the system, and not suggest that there is additional material of that nature being added to the system.

Mr. SMITH. Well, no, I disagree with your analysis. The one percent was probably in about three percent or four percent of the grain. It was probably all in there, and most of that grain was very, very clean. What they do is take that small percentage that had a lot of dockage and by the time it leaves that ship down there, they got it spread all throughout, all that dirt and all that grain sorghum and everything else that was in that wheat. They've got it spread throughout all the wheat that's being exported. And that's what the complaint is about.

I just don't think you can use those statistics as a kind of an excuse to say it came from the farm because it just doesn't wash. And besides, they didn't pay those farmers that sold that with that kind of dockage, they didn't pay them for wheat. They didn't give them very much for that grain, but they got paid for wheat when it left that export plant because they took it and blended it in—or mixed it in; they didn't blend it, they mixed it in—with their other wheat.

I just think that we're not doing enough and that it's time that we got on with it. I can yield to you if you want to comment any more on it.

Dr. GILLES. No, sir. I think we're fairly close in our thoughts. I think, however, that one of the benefits of the current dialogue that has developed over the last year is that people are recognizing it's a system problem. And I also believe that many people are saying, rather than treat the problem, let's prevent it from occurring.

Mr. SMITH. Absolutely.

Dr. GILLES. I think if we can approach it that way and use treatment if we have to, but also use prevention, perhaps we could come to a solution.

Mr. SMITH. My bill was as simple and direct as you can get. It's been in since 1976, and it's all on prevention at export points, because that's where the problem is, and it doesn't say you can't blend, it doesn't say you can't do anything except you can't add foreign material. Now, that's prevention. And if they come out with a three percent tolerance and they've only got 2.5 percent, so what.

But as long as we don't have a rule or a law or nobody is prohibiting them from doing it, they're going to do it because for that other half percent, why, they get another, what, three or four or five cents a bushel. You're talking about millions of dollars when you're talking in volumes, and they're going to do it as long as we let them do it. I just think you've just got to clamp down on it and prohibit them from doing it.

That's all I have, Mr. Chairman.

Mr. WHITTEN. Mr. Watkins?

GRAIN TREATMENT

Mr. WATKINS. As I understand, a grain team from the Soviet Union will visit the U.S. within the next few months to test in-transit fumigation of grain on a Soviet ship. Do you believe that fumigation of grain on U.S.S.R. vessels will solve some of the insect-related problems that have emerged with shipments?

Dr. GILLES. Yes, the Soviet Union has required in-transit fumigation of grain carried on non-Soviet flag vessels since October 1985. Exportkhleb indicated recently that no problems were encountered with insect infestation in those cargoes fumigated in transit. Fumigation of the first vessel has been completed; preliminary reports indicate satisfactory results.

Mr. WATKINS. Has FGIS made efforts to utilize irradiation or have plans been made to use this technology in the future to treat grain shipments?

Dr. GILLES. No, FGIS' role in the national grain inspection program does not include treating grain shipments. The decision to treat grain rests solely with the shipper. Extensive research has been conducted by USDA's Agricultural Research Service on the irradiation of wheat and corn. Technology is available to the grain industry for irradiation should they decide it is economically feasible.

Mr. WATKINS. Based on the latest data, how many countries will accept American grains that have been irradiated that will not accept chemically treated grains?

Dr. GILLES. None, as we are not aware of any country that will not accept chemically treated grain.

Mr. WATKINS. How many total countries will accept irradiated grains?

Dr. GILLES. There are 10 countries including the United States that have approved irradiation of certain grains or grain products. Presumably, these countries would accept irradiated grains. The countries are: Bangladesh, Brazil, Bulgaria, Canada, Chile, People's Republic of China, Netherlands, Soviet Union, and Yugoslavia.

CLASSIFYING GRAINS

Mr. WATKINS. What action is being taken by FGIS to develop a new method of classifying and determining the difference in hard and soft grains other than visual methods?

Dr. GILLES. FGIS, in cooperation with ARS and the University of Nebraska, has been working on a formal basis since mid 1984 to obtain objective methods for differentiating between hard and soft wheats. Three systems have evolved and are in various stages of evaluation. The first procedure evaluated was a single kernel crushing format with subsequent visual evaluation, by magnification, on a CRT screen. This technique proved to be too subjective. The second project, based on an instrument which measures the sound of grinding individual kernels, is in the prototype evaluation stage. This instrumentation was devised by Dr. Karl Norris of the Agricultural Research Service at Beltsville, Maryland. The third process involved a single kernel crushing procedure developed by the Grain Marketing Research Laboratory in Manhattan, Kansas. This instrument was tested for a short period of time and returned to the Grain Marketing Research Laboratory for modification. FGIS is aware of two additional procedures with potential, one at Kansas State University, a single kernel slicing procedure. We are encouraging further development of this instrument as rapidly as possible. The other process is the bulk sample near infrared reflectance—NIR—instrumentation hardness method. This procedure has potential as a screening tool or backup system, but it is not capable, we feel, of a fine enough differentiation between soft and hard blends to perform satisfactorily in the inspection system. We are, however, pursuing collaborative testing of this procedure.

Mr. WATKINS. Can we identify and grade wheat on a cost-competitive scientific basis?

Dr. GILLES. For efficient operation in export and domestic markets, testing procedures should be quick, relatively simple, and provide accurate results. Costs of investment and operation also must be considered and related to the overall costs of the inspection services since such costs are paid by users of the services. Progress in this area is an evolutionary development. Significant progress has been made in using near infrared reflectance instrumentation—NIR—in measuring protein content and in the development of moisture testers. Several promising new techniques are in the development state—one of these being the hardness test I just discussed.

Mr. WATKINS. How soon does FGIS expect to have a new system in place for grading grains?

Dr. GILLES. We are currently working with the wheat industry, universities, and other government agencies to find an objective method to replace visual determination of wheat classing. When an objective method is approved, FGIS will immediately propose adoption of the method.

FGIS is also actively engaged in discussion with wheat growers, inspectors and experts concerning possible changes to the wheat dockage certification procedure to more accurately certify dockage content. Rulemaking is anticipated in 1986.

Mr. WATKINS. USDA has created a computer bank of wheat "fingerprints" to identify plant varieties that have been patented. Apparently wheat varieties are distinguished by a unique pattern, similar to a fingerprint. These patterns are stored in the computers memory. Is this method developed by ARS an option that FGIS is evaluating to identify soft and hard wheat varieties?

Dr. GILLES. No, the "fingerprint chromatographic" procedure is very time consuming and expensive. It is not being considered by FGIS as a viable option as it would require the identification of all varieties in a sample of a single kernel at a time and most all commercial samples are a mixture of a great many varieties. Considerable time, probably a period of hours, would be required to identify all the varieties in a sample to determine their class and the resulting class of the sample. The computer does the identification but the memory bank must contain the same description as used for identification of an unknown, for all known varieties.

Mr. WATKINS. If a decision can't be reached in the near future on change of the grading system, is it possible that FGIS can reach a gentlemen's agreement with the milling industry as to the milling qualities of certain varieties of wheat?

Dr. GILLES. FGIS does not determine the milling quality of wheat during the official inspection procedure for wheat grading. Inspection results indicate the physical and biological condition of the grain at the time of inspection. These tests used in the inspection process must be quick, relatively simple, repeatable, and cost effective. Milling and baking tests do not fit these criteria. We are not aware of any grain inspection system in the world that employs time consuming, milling procedures which vary depending on the type of flour desired.

FGIS is working with the wheat industry, universities, and other government agencies to find a rapid solution to problems of classing wheat. The FGIS Board of Appeals and Review is currently testing two objective methods using instrumentation to identify hard, soft, and mixtures of hard and soft wheat. However, until one of these machines or another objective method is accepted and in place, wheat must be classed by visual determination. All of our competitors use the visual classification method; buyers use and understand the typical classes of wheat.

GRAIN STANDARDS

Mr. WATKINS. It has been said that the U.S. sells "the dirtiest grain in the world," and as a result our exports suffer. A comparison was recently made in a magazine article comparing the amount of dockage and foreign material contained in U.S., Canadian and Austrian wheat cargoes arriving in Japan between 1982 and 1985. The data shows the U.S. delivering nearly six times more dockage than Canada and more than twice as much as Australia.

The U.S. also delivered 191 percent more foreign material than Canada and 550 percent more than Australia. Clearly a revision needs to be made in U.S. grain standards if we expect to compete in the marketplace. What action is being taken by FGIS to correct the matter?

Dr. GILLES. In January 1986, FGIS held a public meeting in Denver, Colorado, to discuss possible changes to the dockage certification procedure for wheat. A number of options were addressed at this meeting including: continued certification of dockage by rounding down to the nearest half or whole amount, for example, 0.50 to 0.99 is certified as 0.50 percent; certify dockage to the nearest one-tenth percent; certify dockage in half and whole amounts by rounding up or down 0.25 percent, for example, 0.26 to 0.75 percent is certified as 0.5 percent; and combine dockage and foreign material and apply the results against limits specified in the standards.

The majority of those who commented at the Denver meeting favored certification of dockage to the nearest one-tenth percent. The majority of participants also recommended that FGIS revise the dockage certification procedure as rapidly as possible.

Currently in progress are a series of Grain Quality Workshops sponsored by the North American Export Grain Association—NAEGA. These workshops are attended by industry, university, and government personnel. One of the main topics being addressed at these workshops is dockage certification; however, also being considered are possible changes to other factors including broken corn and foreign material in corn: foreign material and damage in soybeans; dockage in barley; and two factors in sorghum: (1) dockage and (2) in broken kernels, foreign material and other grains.

A recommendation for changing the dockage certification procedure is expected from the NAEGA Workshops in the near future, possibly even this month. FGIS will then consider this recommendation along with other recommendations including those made at the Denver meeting, as well as resolutions from producer and marketing associations.

Mr. WATKINS. Do you believe that FGIS will be able to regulate the industry with new policy the agency is to present this spring or should Congress enact legislation that will make major reform?

Dr. GILLES. The primary mission of FGIS is to facilitate the marketing of grain by providing interested parties with inspection and weighing services. We are optimistic that current dialog among representatives of the broad segments of the industry will soon be concluded. Interim reports indicate substantial progress is being made. Doubtless, rulemaking will be proposed in 1986.

FGIS expects continued industry cooperation in the future and believes necessary changes are best made through the rulemaking process as provided in Section 4 of the U.S. Grain Standards Act, as amended.

Mr. WATKINS. I assure you if change is not made, Congress will enact legislation to reform what FGIS has not done. Our farmers will lose in the marketplace if standards are not tightened. What kind of standards are imposed on grains coming into the U.S.?

Dr. GILLES. We are not aware of any existing legislation which required grain imported into the U.S. to be officially inspected for quality or condition.

Mr. **Watkins**. Do we have irradiated grains coming into this country? If so, at what level?

Dr. **Gilles**. We know of no grain coming into this country that is irradiated.

USER FEES

Mr. **Watkins**. If user fees were adopted to totally finance all of FGIS programs, does that mean that an appropriation would no longer be needed and you would not be responsible to this subcommittee?

I think Congress needs to continue the current relationship of funding that we now have in order to ensure some oversight of your agencies activities.

Dr. **Gilles**. No. FGIS should remain under jurisdiction of the Subcommittee because it will continue as a Federal agency. Moreover, if enacted as drafted, the proposed legislation includes a provision authorizing appropriations for such sums as are necessary to carry out the provisions of the Act to the extent that financing is not obtained from fees. Minimum appropriations may be required for future contingencies.

Mr. **Whitten**. Are there other questions?

[No response.]

Thank you very much for your appearance.

Dr. **Gilles**. Thank you, Mr. Chairman and members of the committee.

[Prepared statements for the record follow:]

For release only by
the House Committee
on Appropriations

FEDERAL GRAIN INSPECTION SERVICE

Statement of Kenneth A. Gilles, Administrator

Before the
House Appropriations Subcommittee on Agriculture,
Rural Development, and Related Agencies

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before this Committee today. My presentation will include a description of the overall Federal Grain Inspection Service (FGIS) program, and emphasize our continued efforts to provide a cost effective grain inspection and weighing service.

We anticipate a total operating level of $43.8 million for Fiscal Year 1987. Under current law, user fees will account for $36.8 million and will fund our inspection and weighing activities. For standardization and compliance as well as foreign monitoring and advisory committee activities, our appropriations request totals $7.0 million. However, the Administration will submit user fee legislation which, if enacted, would convert the $7.0 million appropriations request to user fees.

The FGIS' mission is to provide for the establishment of official U.S. standards for grain, to promote the uniform application of standards by official inspection personnel, to provide for an official inspection system for grain, to regulate the weighing and certification of the weight of grain shipped in interstate or foreign commerce and to carry out the delegated responsibilities under the Agricultural Marketing Act of 1946. These activities are funded by a user fee cost recovery program. The inspection and weighing activities, which are mandatory at export ports and permissive in the domestic area, comprise the national "Official" Inspection System.

This system encompasses approximately 4000 employees, 600 of whom are FGIS field personnel who provide the direct on line mandatory inspection and weighing of grain at 60 export elevators. Eight delegated States employing approximately 800 employees provide mandatory official services at an additional 31 export elevators under direct Federal oversight. In the domestic market, permissive inspection and weighing services at inland locations are performed under Federal monitoring by approximately 2200 licensed inspectors, weighers, samplers and technicians employed by 81 designated State and private agencies.

Currently, FGIS derives approximately 84 percent of its revenues from user fees charged for its inspection and weighing services. Revenues received are related to requests for our services which in turn depend on the volume of grain exports. During Fiscal Year 1985, despite a decrease in exports, Agency cost efficiency efforts yielded a positive operating margin of approximately $264,000. FGIS repaid to the Department of Treasury $2 million, the second installment, of the $6 million supplemental appropriation it received in November of 1983. The balance of $2 million will be repaid in Fiscal Year 1986 if operating balances permit. We have always considered this supplemental appropriation to be a line of credit to be used if needed.

PROPOSED LEGISLATION

FGIS will propose user fee legislation beginning in Fiscal Year 1987, for standardization, compliance, foreign monitoring, and advisory committee activities. Then user fees will fund 100 percent of the Agency's programs. This legislation is a continuation of the Administration's efforts to reduce the Federal deficit and decrease our dependence on appropriated funds. Although the general public receives some benefit from these standardization and compliance activities, the direct beneficiaries are the producers, merchandisers, users and others who participate in the marketing of U.S. grains and related commodities. User fees will be based on the costs of the service provided.

We recognize that this proposal may cause some consternation within the grain and related commodities industries. Moreover, the FGIS Advisory Committee opposes this concept. However, the industry has benefited from and supported our previous and continued efforts to provide a cost effective, user fee funded service. FGIS' dependence on user fee funding has increased from 59 percent in Fiscal Year 1981 to approximately 85 percent in Fiscal Years 1982 through 1986. During this time, FGIS has improved both its service and its public perception as a governmental service agency.

PROGRAM AND FINANCIAL INFORMATION

The quality and condition of U.S. grain received renewed interest during Fiscal Year 1985. Worldwide competition increased as supplies were plentiful and U.S. prices were higher than competing foreign commodities. While our traditional trading partners recognize that the U.S. is a quantity supplier, they desire to have better quality and condition when the price is higher relative to other suppliers. Generally, the wheat harvest of

1984 was completed under favorable climatic conditions. However, these conditions were adverse for the corn and soybean harvests, and the quality and condition of corn and soybeans were below average. Consequently, many cargoes were at the lower range of the grades, and buyer complaints increased.

Grain export inspections totaled 101.1 million metric tons, compared to last year's 115.2 million metric tons, a decrease of 14.1 million metric tons or 12 percent. Domestic grain inspections totaled 168.0 million metric tons, compared to last year's 179.2 million metric tons, a decrease of 11.2 million metric tons or 6 percent.

FGIS' user fee revenues during Fiscal Year 1985 were $31.7 million, with obligations of $31.5 million, yielding a net operating margin of approximately $264,000. Prior year adjustments of $300,000 accrued to the revolving fund which ended the year at $8.0 million. The $8.0 million represents a 3-month operating reserve, a position that we strive to maintain. Revolving fund obligations for Fiscal Year 1985 were $31.5 million or about $600,000 above the prior year's level of $30.9 million.

Because of decreased exports and cost containment efforts, total obligations were below budget authorization limits. Fiscal Year 1985 appropriated obligations of approximately $6.7 million plus revolving fund obligations of $31.5 million totaled $38.2 million or approximately $500,000 over Fiscal Year 1984 total program obligations.

Effective October 1, 1985, FGIS reduced fees by approximately 40 percent for the supervision of inspection and weighing services performed by official agencies. Under current law, delegated States and designated agencies perform official inspection and weighing services under Federal supervision and must pay fair and reasonable fees to FGIS to cover its costs. If current cost and revenue patterns continue, fees may have to be adjusted in Fiscal Year 1986 for original inspection and weighing services.

During Fiscal Year 1985, FGIS continued its standardization and related research activities. New standards were developed and existing ones were revised to assure that the physical and biological characteristics of grains and related commodities are uniformly and accurately described during movement through the marketing system. The standards must reflect changes in production and marketing practices. Standards reviews were completed and revisions published for soybeans, triticale, flaxseed and oats.

To improve the grain inspection system, FGIS continued to cooperate in the development of objective testing procedures. This was accomplished through FGIS research and outside contracts. Outside research contracts included studies to determine hidden insect infestation in wheat, to develop objective procedures for wheat classing and to evaluate the CuSum loading plan. FGIS projects included the development of reference methods for moisture determination in grain and the use of pulsed nuclear magnetic resonance technology to determine moisture and oil content in soybeans.

A lease has been signed with GSA for our new technical center in Kansas City. Occupancy is scheduled between April and June of this year.

FISCAL YEAR 1987 REQUEST

Total funding for FGIS is estimated to be $43.8 million in Fiscal Year 1987. This consists of $7.0 million in appropriated funds for standardization, international monitoring, compliance and advisory committee activities and $36.8 million to be collected from user fees for inspection and weighing services. Our staff-year ceiling is now 940.

ADVISORY COMMITTEE

We have continued to work closely with our advisory committee. It offers an important source of advice and assures that FGIS receives industry's view as the Agency formulates policy affecting the grain industry. Subcommittees were established to address corn moisture, insect infestation and legislation on the removal of dust from grain. The Committee also addressed the issues of proposed user fee legislation; grain quality reports for corn, wheat and soybeans; proposed changes in the grain standards and the financial status of FGIS.

SAFETY

Within the Department's grain elevator safety program, FGIS maintains the USDA Grain Explosion Reporting and Tracking System. During Fiscal Year 1985, 16 explosions in grain handling facilities resulted in 1 death and 14 personal injuries. This compared to 20 explosions resulting in 9 deaths and 14 personal injuries during Fiscal Year 1984. No Federal employees were involved in either year. Increased awareness of explosion risk has led to interaction among government, industry, union and trade associations. Substantial research and education efforts by the industry have improved dust control procedures and explosion prevention methods.

Secretary Block in 1982 established a grain storage, handling and processing safety program and a safety subcommittee to monitor activities and promote safe grain movement. During Fiscal Year 1985 the subcommittee utilized the National Agricultural Library in Beltsville as an international repository for research on elevator safety.

At FGIS' request, the National Institute of Occupational Safety and Healt (NIOSH) conducted a series of health hazard evaluations at several FGIS field office work sites. NIOSH found that FGIS employees were not in danger of any serious health hazards as a result of exposure to grain fumigants.

CONCERNS

Challenging issues continue to confront the national inspection system. These include wheat classing, insect infestation, wheat dockage certification and the quality and condition of U.S. export grain.

The only acceptable method in current commercial practice for classing wheat for grading purposes is by visually examining the physical kernel characteristics. Variations of this system are used by all major grain exporting nations. Increased breeding and production of new atypical wheat varieties exhibiting parental kernel characteristics of more than one class continue to increase the difficulty for licensed inspectors in classing wheat. Factors further complicating wheat classing are the influence of climate, fertility and environmental conditions on the kernel characteristics and the commingling of typical and atypical varieties in marketing channels. Moreover, the grain industry retains preference for the current classification system.

No objective test currently is available which accurately classes wheat according to the present standards; however, a number of tests are currently under study by USDA, university, and industry researchers. FGIS will continue to work with researchers in the field to find an acceptable solution to the wheat classing problem. As directed by the Food Security Act of 1985, FGIS and the Agricultural Research Service have submitted a joint Report on Grain Classification, dated December 31, 1985, to the House and Senate Agriculture Committees. Semiannual reports on this issue will follow.

Insect infestation is a major concern to foreign and domestic buyers and processors. The problem is compounded by the loss of certain pesticides. The concern is shared by FGIS because it identifies insect-infested grain or grain damaged by insects and certificates the results. FGIS is examining its procedures for identifying and certifying live and hidden insect infestation and is working with the Agricultural Research Service to encourage development of efficient methods for controlling insects in grain.

The current method of wheat dockage certification rounds the actual percentage of dockage down to the nearest 0.5 percent; for example, for 0.0 to 0.49 percent no dockage is shown, 0.50 to 0.99 percent is shown as 0.5 percent dockage, and so forth. Foreign buyers object to this certification approach because it under-reports the amount of dockage in U.S. wheat as much as 0.49 percent.

In January 1984, FGIS proposed a change in the dockage rounding procedures during the review of the wheat standards. Comments received on the proposed change indicated considerable controversy surrounded this issue. FGIS published a final rule in the May 16, 1984, Federal Register which included a notice that (1) a change in the dockage rounding procedure was deferred pending completion of further study, and (2) at least one public meeting would be held to discuss the issue before further action is taken. This meeting was held on January 7, 1986, with approximately 80 people in attendance. Twenty-four separate agricultural groups, foreign buyers, and individuals commented on dockage certification issues. There was general agreement that dockage certification procedures, in view of present technology, should more accurately describe the dockage content in wheat. The majority of comments supported early action to change the standards to allow certification of wheat dockage to the nearest 0.1 percent.

The FGIS Advisory Committee also considered the issue of dockage last October and recommended that FGIS propose to certificate dockage to the nearest 0.1 of a percent rather than the previously described method.

The quality of U.S. export grain has come under increased scrutiny and concern by foreign buyers, exporters, producers, other segments of the grain industry, the media, and the public-at-large. The public perceives that the quality of U.S. grain is poor when compared with other countries. With the Food Security Act of 1985, Congress has directed the Office of Technology Assessment to conduct a study of U.S. grain export quality standards and grain handling practices. The study will be conducted in consultation with USDA and recommendations are to be submitted to the Congress by December 1, 1986.

The U.S. grain marketing system is very complex. Mixing and blending of grain, a key element in the marketing chain, begins at the farm and continues at each marketing level. When properly practiced, blending facilitates quality control.

The handling of grain at each step in the marketing chain produces dust and broken kernels, as well as segregation of material. When a shiphold is initially opened, this segregation causes the grain to appear dusty on the surface. Many importers receive only a portion of the total shipment. Differences caused by segregation, sampling techniques, and grading methods at destination can account for over 90 percent of the foreign complaints. FGIS' foreign monitoring program includes an extensive educational program to acquaint the buyer and user with FGIS policies and procedures to minimize such problems.

Generally, foreign buyers recognize the levels of grain quality that the official U.S. grades represent. In some cases, however, buyers have a preconceived concept of what the grain quality should be. When it does not meet these expectations, they may complain -- even if the quality is within the grade limits and contract specifications. U.S. standards have tolerances for various grading factors which are greater than the tolereances used by our chief competitors. The standards are published and buyers of U.S. grain have ready access to them.

We will continue working with representatives of the grain industry, including producers, in an effort to resolve the problems and perceptions surrounding the issue of grain quality.

CLOSING

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have.

FEDERAL GRAIN INSPECTION SERVICE

Purpose Statement

The Federal Grain Inspection Service (FGIS) was established on November 20, 1976, pursuant to the U.S. Grain Standards Act (USGSA), as amended (Public Law 94-582). The USGSA was amended in 1977 to provide appropriated funding for field supervision. The USGSA was amended again under the Omnibus Budget Reconciliation Act of 1981 to require user fee funding to support supervision and administration of the inspection and weighing programs previously covered by appropriations. The 1981 legislation also established a FGIS Advisory Committee to provide the administrator advice on the efficient and economical implementation of the USGSA. The 1981 legislation was subsequently amended through September 30, 1988, to extend the authority of FGIS to collect user fees to cover administrative and supervisory costs related to official grain inspection and weighing. FGIS carries out grain inspection and weighing programs under the USGSA and other programs under the authority of the Agricultural Marketing Act of 1946 (AMA), as amended. The programs under the AMA include the inspection and grading of rice, dry beans, lentils, dry peas, processed grain products, hay, straw, hops, and related commodities as were assigned to the Agency by the Secretary of Agriculture under the authority of the Reorganization Plan Number 2 of 1953.

The mission of FGIS is to provide for the establishment of official United States standards for grain, to promote the uniform application thereof by official inspection personnel, to provide for an official inspection system for grain, and to regulate the weighing and the certification of the weight of grain shipped in interstate or foreign commerce, as authorized by the USGSA; and to carry out the delegated responsibilities under the AMA. Through these permissive and mandatory programs, FGIS aids in advancing the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and foreign buyers. The establishment of grain standards as a common language of commerce facilitates trading among buyers and sellers who may never see each other, but who use these standards to accurately describe the quality of the grain being traded. FGIS, acting as an impartial third party, assures that these standards are applied and the weights are recorded in a fair and accurate manner, thereby facilitating domestic and foreign grain trading.

The amended U.S. Grain Standards Act requires FGIS to provide: (1) mandatory inspection and weighing services at export ports by Federal or delegated State agency personnel; and (2) permissive inspection and weighing services at domestic locations by designated State and private agency personnel. Currently there are 8 delegated States and 81 designated State and private agencies. The USGSA also requires FGIS to supervise all official inspection and weighing activities performed by Federal, State or private personnel. Further, on a request basis, Federal personnel perform inspection of rice and related commodities under the AMA and provide nation-wide appeal inspection services.

The FGIS headquarters is located in Washington, D.C., with field activities located in 29 field offices, 2 Federal/State offices, and 9 suboffices in 25 States and Canada. As of September 30, 1985, FGIS employment totaled 739 full-time permanent employees and 99 part-time temporary and intermittent employees. Of the total, 115 full-time employees and 7 part-time and intermittent employees were located at headquarters while the remaining 624 full-time employees and 92 part-time and intermittent employees were assigned to field locations. The costs of nearly all field services and most headquarters activities are financed from fees charged for services performed. User fee activities accounted for 83 percent of total agency spending in FY 1985. Compliance and standardization activities, international monitoring and the FGIS Advisory Committee are financed from appropriations.

FEDERAL GRAIN INSPECTION SERVICE

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Salaries and Expenses	$6,994,000	121	$6,998,000	156	$6,979,000	155
Inspection and Weighing Services	31,772,554	802	36,829,000	904	36,829,000	905
Total, Federal Grain Inspection Service	38,766,554	923	43,827,000	1,060	43,808,000	1,060

Full-Time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	846	940	940
Non-ceiling	77	120	120
Total	923	1,060	1,060

FEDERAL GRAIN INSPECTION SERVICE

Permanent Positions by Grade and Staff-Year Summary

1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
Executive Level V	1	--	1	1	--	1	1	--	1
ES-5	1	--	1	1	--	1	1	--	1
ES-3	1	--	1	1	--	1	1	--	1
GS/GM-15	5	--	5	5	--	5	5	--	5
GS/GM-14	17	--	17	17	--	17	17	--	17
GS/GM-13	26	13	39	26	15	41	26	15	41
GS-12	47	22	69	50	25	75	50	25	75
GS-11	9	97	106	10	112	122	10	112	122
GS-10	--	10	10	--	12	12	--	12	12
GS-9	3	266	269	3	310	313	3	310	313
GS-8	3	--	3	3	--	3	3	--	3
GS-7	10	1	11	11	1	12	11	1	12
GS-6	22	22	44	24	25	49	24	25	49
GS-5	11	101	112	12	117	129	12	117	129
GS-4	6	40	46	7	46	53	7	46	53
GS-3	1	2	3	1	2	3	1	2	3
GS-2	--	1	1	--	1	1	--	1	1
GS-1	--	--	--	--	--	--	--	--	--
Ungraded Positions	--	1	1	--	1	1	--	1	1
Total Permanent Positions	163	576	739	172	667	839	172	667	839
Staff-Years:									
Ceiling	144	702	846	161	779	940	161	779	940
Non-Ceiling	1	76	77	--	120	120	--	120	120
Total	145	778	923	161	899	1,060	161	899	1,060

FEDERAL GRAIN INSPECTION SERVICE

Salaries and Expenses - Appropriated Funds

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

	1985	1986	1987
Personnel Compensation:			
Headquarters	$2,561,732	$2,929,000	$2,920,000
Field	1,169,305	1,201,000	1,192,000
11 Total personnel compensation	3,731,037	4,130,000	4,112,000
12 Personnel benefits	493,005	574,000	568,000
13 Benefits for former personnel	72,001	100,000	100,000
Total Personnel Compensation Benefits	4,296,043	4,804,000	4,780,000
Other Objects:			
21 Travel	254,003	368,000	368,000
22 Transportation of things ..	23,001	32,000	32,000
23.2 Rental payments to others .	29,001	32,000	32,000
23.3 Communications, utilities, and misc. charges	225,002	298,000	298,000
24 Printing and reproduction.	37,001	87,000	87,000
25 Other services	1,386,013	1,085,000	1,090,000
26 Supplies and materials ...	129,001	117,000	117,000
31 Equipment	306,003	175,000	175,000
Total direct obligations	$6,685,068	$6,998,000	$6,979,000
Position Data:			
Average Salary, ES positions	$67,888	$68,477	$68,477
Average Salary, GS positions	$30,211	$30,595	$30,595
Average Grade, GS positions	11.5	11.5	11.5

FEDERAL GRAIN INSPECTION SERVICE

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Salaries and Expenses:

For necessary expenses to carry out the provisions of the United States Grain Standards Act, as amended, and the standardization activities related to grain under the Agricultural Marketing Act of 1946, as amended, including field employment pursuant to section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), and not to exceed $20,000 for employment under 5 U.S.C. 3109, [$7,045,000] $6,979,000: Provided, That this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but, unless otherwise provided, the cost of altering any one building during the fiscal year shall not exceed 10 per centum of the current replacement value of the building: Provided further, That none of the funds provided by this Act may be used to pay the salaries of any person or persons who require, or who authorize payments from fee-supported funds to any person or persons who require, nonexport, nonterminal interior elevators to maintain records not involving official inspection or official weighing in the United States under Public Law 94-582 other than those necessary to fulfill the purposes of such Act.

FEDERAL GRAIN INSPECTION SERVICE

SALARIES AND EXPENSES - CURRENT LAW

Appropriations Act, 1986		$7,045,000
Budget Estimate, 1987		6,979,000
Decrease in Appropriation		-66,000
Adjustments in 1986:		
Appropriations Act, 1986	$7,045,000	
Less Pro-Rata Reduction, P.L. 99-190	-42,000	
Net Appropriations	7,003,000	
Transfer to Departmental Administration for Reimbursable Activities a/...........	-5,000	
Adjusted base for 1986		6,998,000
Budget estimate, 1987		6,979,000
Decrease from adjusted 1986		-19,000

a/ A transfer of $5,000 to Departmental Administration is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES - CURRENT LAW
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Decrease	1987 Estimated
Standardization and Compliance Activities	$6,998,000	-$19,000	$6,979,000

PROJECT STATEMENT - CURRENT LAW
(On basis of adjusted appropriation)

	1985 Actual		1986 Estimated			1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Change	Amount	Staff-Years
I. Standardization and Compliance Activities..	$6,685,068	121	$6,998,000	156	-$19,000	$6,979,000	155
Total, obligations...	6,685,068	121	6,998,000	156	-19,000	6,979,000	155
Unobligated balance.......	308,932	---	---	---	---	---	---
Total, available or estimate...	6,994,000	121	6,998,000	156	-19,000	6,979,000	155
Transfer to Departmental Administration	+5,000	---	+5,000	---			
Total, Appropriation.	6,999,000	---	7,003,000	---			

EXPLANATION OF PROGRAM

The appropriation "Salaries and Expenses" of the Federal Grain Inspection Service funds the standardization and compliance activities. The activities carried out are as follows:

1. Standardization Activities

FGIS standardization activities aid in the orderly marketing of grain, oilseeds, rice, and related commodities. This is accomplished through the development, promulgation and uniform application of new and revised U.S. Standards for grain, oilseeds, rice, dry beans, dry peas, lentils, hay, straw, hops and related processed products. Activities include establishment, review and revision of the U.S. Grain Standards to reflect the latest inspection techniques and marketing needs. The agency also evaluates instruments and equipment used in the inspection and weighing process to ensure accuracy. In addition, the agency maintains an international monitoring program which interacts with foreign governments and trade teams to exchange information and to respond to complaints concerning quality and quantity of grain shipments.

Standardization Activities
Projected Level of Activity

	FY 1985	FY 1986	FY 1987
U.S. Standards in effect at end of year	20	20	20
New and revised standards issued during fiscal year	4	1	6
Standards reviews in progress	3	11	17
Standards reviews completed	4	1	10
Inspection techniques developed	10	6	6
Equipment evaluated	8	8	8

2. Compliance Activities

The compliance activities ensure the accurate and uniform application of the U.S. Grain Standards Act (USGSA) and the applicable provisions of the Agricultural Marketing Act of 1946 (AMA). Field activities are reviewed to assure that all procedures are implemented in a manner consistent with agency policy. Compliance activities include the delegation and designation of official agencies, the investigation of violations of the USGSA and AMA including conflicts-of-interest, initiation of appropriate corrective action including occasional referral of criminal violations to the Office of Inspector General, and licensing of official agency personnel.

Compliance Activities
Projected Level of Activity

	FY 1985	FY 1986	FY 1987
Official Agency Actions:			
Agency delegations and designations in effect at end of fiscal year	82	81	80
Designations renewed	27	27	27
Designations cancelled	0	0	0
Designations amended	0	1	0
State delegations at export port locations in effect at end of fiscal year	8	8	8
Licensing of Grain Firms:			
Registration certificates issued	128	130	130

3. Proposed Legislation

The administration has proposed user fee funding of the standardization and compliance activities that the Federal Grain Inspection Service (FGIS) provides to the grain marketing industry. Although the general public benefits by uniform standards and the integrity ensured by compliance activities, the direct beneficiaries are the producers, merchandisers and others who participate in the marketing of U.S. grain, rice and related processed products. Therefore, it is appropriate that these costs be borne by the identifiable group that benefits from the Government-provided service. User fees will be levied and will be based on the costs of the service.

JUSTIFICATION OF INCREASES AND DECREASES

A decrease of $19,000 in standardization and compliance activities as part of a government-wide management savings program to implement A-76 initiatives.

Obligations by State: The following is a distribution of obligations and staff years for the Federal Grain Inspection Service appropriated funds.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
Fiscal Years 1985, 1986 and 1987

	FY 1985 Actual		FY 1986 Estimated		FY 1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama	$146,690	3	$154,000	4	$154,000	4
Arkansas	20,854	1	22,000	1	22,000	1
California	49,158	1	52,000	1	52,000	1
District of Columbia .	2,375,042	42	2,456,000	42	2,448,000	42
Georgia	2,300	---	2,000	---	2,000	---
Idaho	43,690	1	46,000	1	46,000	1
Illinois	109,944	2	116,000	4	116,000	4
Indiana	107,783	2	114,000	4	114,000	4
Iowa	65,504	1	69,000	2	69,000	2
Kansas	253,606	5	268,000	7	268,000	7
Louisiana	40,456	1	42,000	1	42,000	1
Maryland	12,270	---	13,000	---	13,000	---
Michigan	58,127	1	61,000	1	61,000	1
Minnesota	176,164	3	185,000	5	185,000	5
Missouri	2,797,928	50	2,950,000	71	2,939,000	70
Nebraska	45,419	1	47,000	1	47,000	1
North Dakota	46,777	1	50,000	1	50,000	1
Ohio	39,295	1	41,000	1	41,000	1
Oregon	12,093	---	13,000	---	13,000	---
Pennsylvania	12,295	---	13,000	---	13,000	---
Tennessee	25,533	1	27,000	1	27,000	1
Texas	127,841	2	135,000	4	135,000	4
Virginia	44,394	1	46,000	1	46,000	1
Washington	71,905	1	76,000	3	76,000	3
Total States	$6,685,068	121	$6,998,000	156	$6,979,000	155

FEDERAL GRAIN INSPECTION SERVICE
Proposed for Later Transmittal, Proposed Legislation

SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION

Item of Change	1987 Current Law	Program Changes	President's Request
Salaries and Expenses	$6,979,000	-$6,979,000	---

Explanation of Proposed Legislation

This proposal will require user fee funding for standardization and compliance activities provided to the grain marketing industry by the Federal Grain Inspection Service. Although the general public benefits by uniform standards and the integrity ensured by compliance activities, the direct beneficiaries are the producers, merchandisers and others who participate in the marketing of U.S. grain, rice and related processed products. Therefore, it is appropriate that these costs be borne by the identifiable group that benefits from this Government service. User fees will be levied and will be based on the costs of the service provided.

FEDERAL GRAIN INSPECTION SERVICE

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Inspection and Weighing Services:

Limitation on [Administrative] Inspection and Weighing Service Expenses

Not to exceed [$36,856,000] $36,829,000 (from fees collected) shall be obligated during the current fiscal year for Inspection and Weighing Services.

This change in language is for clarification purposes. The above funds represent a limitation on expenditures for Inspection and Weighing Services and not for Administrative Expenses. As in the past, the limitation will continue to pertain to all obligations necessary to perform this activity and not just those associated with administrative activities.

INSPECTION AND WEIGHING SERVICES

Obligations, 1986	$36,856,000
Transfer to Departmental Administration and Office of Governmental and Public Affairs for Reimbursable Activities a/	-27,000
Adjusted Obligations, 1986	36,829,000
Estimate, 1987	36,829,000
Change in Obligations	--

a/ A transfer of $22,000 to Departmental Administration and $5,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES

	1986 Estimated	Program Change	1987 Estimates
Inspection and Weighing Activities	$36,829,000	--	$36,829,000
Total Obligations	36,829,000	--	36,829,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1984 Actual	1985 Estimated	1986 Estimated	1987 Estimated
Admin. of U.S. Grain Std. Act.	$6,000,000	--	--	--
Repayment to Treasury	-2,000,000	-$2,000,000	--	--
Total, available	4,000,000	-2,000,000	--	--

In FY 1984, a $6 million supplemental was appropriated to recapitalize the revolving fund. A repayment of $2 million was subsequently made in FY 1984 and again in FY 1985 with plans to repay the remaining $2 million from future fees. No additional appropriated funds will be required.

	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff Years
Insp. & Weigh. Activities	$31,467,121	802	$36,829,000	904	--	$36,829,000	905
Actual oblig.	31,467,121	802	36,829,000	904	--	$36,829,000	905
Unrealized prior years oblig.	305,433	--	--	--	--	--	--
Total, oblig.	31,772,554	802	36,829,000	904	--	36,829,000	905
Unobligated balance avail. start of period	-11,470,151	--	a/ -10,131,301	--	--	a/ -10,131,301	--
Unobligated balance avail. end of period	a/ 10,131,301	--	a/ 10,131,301	--	--	a/ 10,131,301	--
'84 Supplemental repayment	2,000,000	--	--	--	--	--	--
Collections	32,433,704	802	36,829,000	904	--	36,829,000	905
Unrealized prior year revenues	-703,041	--	--	--	--	--	--
Actual Collections	31,730,663	802	36,829,000	904	--	36,829,000	905

a/ Total includes a $2 million balance from an FY 1984 supplemental of $6 million for revolving fund recapitalization.

EXPLANATION OF PROGRAM

The Federal Grain Inspection Service (FGIS) provides an official grain inspection and weighing system under the U.S. Grain Standards Act (USGSA), as amended, and official inspection of rice and grain related products under the Agricultural Marketing Act of 1946 (AMA), as amended. The USGSA was amended in 1981 to require the collection of user fees to fund the costs associated with the operation, supervision and administration of Federal grain inspection and weighing activities.

Fees collected under the USGSA and the AMA pay the expenses of the following programs:

1. Inspection Activities

Fee supported inspection activities under the USGSA include direct services as well as the supervision and administration function associated with the program. Direct services include mandatory official inspection of outbound grain by FGIS employees at certain export points and when requested the inspection of U.S. grain shipped through the interior and Canada. FGIS also provides an appeal service for original grain inspection. The FGIS supervision program provides oversight of its employees as well as the monitoring of the inspection activities of 8 delegated States and 81 designated State and private agencies. In addition, FGIS provides inspection services for grain, rice and related products which are covered by the AMA. FGIS personnel provide the technical and administrative support for the program.

Projected Level of Activity

	FY 1985	FY 1986	FY 1987
Export Grain Inspected and Weighed (million metric tons)			
By Federal personnel	78.2	74.5	74.5
By delegated States	22.9	21.8	21.8
Quantity of Grain Inspection (All Official Inspections) Million Metric Tons	269.1	269.1	269.1
Number of Licensee Inspection and Reinspections	2,761,192	2,760,000	2,760,000
Number of Appeals	16,436	16,400	16,400
Number of Appeals Carried to the Board of Appeals	1,288	1,300	1,300
Quantity of Rice Inspected (million metric tons)	3.0	2.8	2.8
Quantity of Rice Exports (million metric tons)	2.0	1.8	1.8

2. Weighing Activities

Fee supported weighing activities under the USGSA include the direct services as well as the supervision and administration functions associated with the program. FGIS provides mandatory weighing of outbound grain at certain export points. On request, FGIS may provide grain weighing services in the interior and on export shipments to Mexico. FGIS also offers supervision of weighing services by request on inbound grain at export points, a nationwide scale testing program and a separate scale testing program designed for railroad truck scales. In addition to supervising its own employees, FGIS monitors the weighing activities of employees of eight delegated States and certain designated State and private agencies performing weighing activities. FGIS personnel provide the technical and administrative support for the program.

Projected Level of Activity

	FY 1985	FY 1986	FY 1987
Export Grain Weighed (million metric tons)			
by Federal Personnel	78.2	74.5	74.5
by Delegated State Personnel	22.9	21.8	21.8
Number of Official Scales in Service - Export Elevators	455	455	455
Number of Railroad Track Scales Tests (Includes American Association of Railroad Tests)	100	100	100

OIG Reports

#37099-3-FM, 1/22/85 - (Draft) Survey of Automated Weighing Systems.

#37099-1-FM, 8/26/85 - (Final) Survey of Automated Weighing Systems.

Obligations by State: The following is a distribution of obligations and staff years for the fee supported inspection and weighing services.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
Fiscal Years 1985, 1986 and 1987

	FY 1985 Actual		FY 1986 Estimated		FY 1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama	$478,447	13	$554,000	15	$554,000	15
Arkansas	943,516	26	1,094,000	30	1,094,000	30
California	66,582	2	78,000	2	78,000	2
District of Columbia .	6,753,728	103	7,807,000	103	7,807,000	103
Florida	38,002	1	44,000	1	44,000	1
Georgia	200,193	6	232,000	7	232,000	7
Idaho	156,607	4	182,000	5	182,000	5
Illinois	877,716	24	1,018,000	28	1,018,000	28
Indiana	224,520	6	261,000	7	261,000	7
Iowa	199,852	6	232,000	7	232,000	7
Kansas	477,250	13	553,000	15	553,000	15
Louisiana	7,696,242	217	8,929,000	243	8,929,000	244
Maryland	1,810,451	52	2,100,000	59	2,100,000	59
Michigan	157,365	4	182,000	5	182,000	5
Minnesota	507,489	14	588,000	16	588,000	16
Mississippi	229,815	6	267,000	7	267,000	7
Missouri	847,511	23	984,000	27	984,000	27
Nebraska	495,882	14	575,000	16	575,000	16
North Dakota	225,847	6	262,000	7	262,000	7
Ohio	664,791	18	771,000	20	771,000	20
Oregon	2,566,188	71	2,978,000	83	2,978,000	83
Pennsylvania	848,899	23	985,000	27	985,000	27
Tennessee	71,760	2	84,000	2	84,000	2
Texas	4,369,223	124	5,068,000	144	5,068,000	144
Virginia	178,307	5	206,000	6	206,000	6
Washington	126,928	4	147,000	5	147,000	5
Total States	31,213,111	787	36,181,000	887	36,181,000	888
Canada	559,443	15	648,000	17	648,000	17
Total States and Canada	$31,772,554	802	$36,829,000	904	$36,829,000	905

FEDERAL GRAIN INSPECTION SERVICE
Proposed for Later Transmittal, Proposed Legislation

SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION

	1987		
Item of Change	Current Law	Program Changes	President's Request
Inspection and Weighing Services	$36,829,000	$6,979,000	$43,808,000

Explanation of Proposed Legislation

This proposal will require user fee funding for standardization and compliance activities provided to the grain marketing industry by the Federal Grain Inspection Service. Although the general public benefits by uniform standards and the integrity ensured by compliance activities, the direct beneficiaries are the producers, merchandisers and others who participate in the marketing of U.S. grain, rice and related processed products. Therefore, it is appropriate that these costs be borne by the identifiable group that benefits from this Government service. User fees will be levied and will be based on the costs of the service provided.

FEDERAL GRAIN INSPECTION SERVICE

SALARIES AND EXPENSES

STATUS OF PROGRAM

The Federal Grain Inspection Service (FGIS) was established on November 20, 1976, to carry out and administer the provisions of the U.S. Grain Standards Act (USGSA), as amended, (Public Law 94-582). The mission of FGIS is to provide for the establishment of official U.S. standards for grain and other commodities, to promote the uniform application thereof by official inspection personnel, to provide for an official inspection system for grain, and regulate the weighing and certification of the weighing of grain shipped in interstate or foreign commerce as authorized by the USGSA, as amended, and the regulations there of; and to carry out the delegated responsibilities under the Agricultural Marketing Act of 1946 (AMA). The standardization and compliance activities are funded by appropriations. Prior to FY 1982, administrative activities at headquarters and supervision costs of field-based inspection and weighing activities were funded by appropriations.

1. Standardization Activities

Current Activities: FGIS administers standardization programs for the development, promulgation, and uniform official application of new and revised U.S. standards for grain, oilseeds, rice, dry beans, dry peas, lentils, hay, straw, hops and related processed commodities. Standards are regularly reviewed and updated to reflect changing inspection techniques and marketing needs.

Selected Examples of Recent Progress:

Grain Standards Advisory Committee. The FGIS Advisory Committee was established September 29, 1981, as required by the Omnibus Budget Reconciliation Act of 1981 to provide advice to the Administrator on the efficient and economical implementation of the U.S. Grain Standards Act.

The Committee consists of 12 members appointed by the Secretary and represents all segments of the grain industry. The Committee addressed a number of issues. These included proposed user fee and grain dust legislation; grain quality reports for wheat, corn and soybeans; proposed changes in the grain standards; insect infestation and FGIS finances. The Committee took the following actions:

- Supported a continuation of appropriated funding for the Standardization, Compliance, International Monitoring and GSA Advisory Committee activities.
- Recommended that FGIS continue to support the National Commission on Agricultural Trade and Export Policies and individual groups that analyze and evaluate possible solutions to export trade problems.
- Recommended that FGIS not change the corn moisture reference standard.
- In the event legislation is necessary to improve export grain quality, recommended that FGIS support the Senate version of the proposed legislation (S.1121).

International Monitoring. Activities of the International Monitoring Staff during FY 1985 included visits to 22 countries in Europe, Asia, Central and South America. These visits were to participate in grain quality seminars, foreign trade meetings and grain grading seminars and to respond to foreign complaints. Activities in Washington included meetings with members of 43 foreign trade teams from 23 countries in Europe, Asia, Central and South America and Africa. The staff received 74 formal and informal foreign complaints involving quality or quantity discrepancies while only 1 complaint was found to be valid.

Research. Research continues in the areas of refining near infrared reflectance (NIR) techniques and expanding their area of application. Presently, only protein content of wheat is offered under the official inspection system. Within the next few months, we propose to offer barley protein content measurements under the official inspection system. Using the NIR, research is underway to determine the protein and oil content of soybeans and the oil content and milling degree for milled rice. The acquisition of a scanning NIR allows the evaluation of standard wavelengths. This capability has allowed us to refine wavelength selection and improve NIR instrument accuracy.

A primary area of research effort is the development of new, objective procedures for use in classing wheat. These efforts, by university and Agricultural Research Service (ARS) personnel in conjunction with FGIS, are high priority projects. Prototype equipment will be evaluated by the Board of Appeals and Review starting the latter part of this year. Further areas being researched are objective odor determination using instrumentation, the determination of hidden infestation in wheat by use of computer enhanced X-ray image analysis, single kernel moisture analysis for corn, pulsed nuclear magnetic resonance for rapid moisture and oil determination in sunflower and soybeans, continued evaluation of moisture reference procedures for grains and the development of instrumentation for the rapid evaluation of oil quality in oil seeds. These projects are being pursued by in-house research where feasible and by means of contract or reimbursable agreements with ARS when more cost effective.

Standards Development. Standards reviews were completed for soybeans, triticale, flaxseed and oats. The soybean standards were revised to delete the current classes of Green, Black and Brown soybeans and include these deleted classes in a new definition of soybeans of other colors. Limits in the Sample grade requirements for soybeans were also added. Changes were made in the triticale standards to reduce the allowable limit for castor beans in the numerical grades and to delete smut as a factor which would render triticale Sample grade. Changes to the flaxseed standards included deletion of the requirements that flaxseed be graded U.S. Sample grade when the moisture exceeds 9.5 percent. Changes to the oats standards included deletion of the special grade "Tough" and the U.S. Sample grade requirements for high-moisture oats.

A review of the barley standards is in progress.

The Agency's second 5-year regulatory review cycle will be underway in FY 1986.

2. Compliance Activities

Current Activities: The compliance program is designed to ensure accurate and uniform application of the USGSA and the applicable provisions of the AMA. The compliance program functions include: (1) evaluating alleged violations and initiating preliminary investigations; (2) initiating necessary corrective actions; (3) conducting management and technical reviews; (4) administering the delegations and designations of State and private agencies to perform official functions; (5) identifying and, where appropriate, waiving and monitoring conflicts-of-interest; (6) licensing personnel of delegated States and designated agencies; (7) responding to audits of FGIS programs; and (8) reviewing agency fee schedules.

Selected Examples of Recent Progress:

Reviews. FGIS field offices conduct semi-annual onsite management reviews of each agency performing official services. In addition, during FY 1985, headquarters personnel conducted onsite reviews of 16 field offices and 33 agencies.

Delegations and Designations. There are 82 agencies designated to provide official services at interior points. Eight of these agencies are States delegated to perform official inspection and weighing services at export points. During FY 1985, two agencies voluntarily cancelled their designations and new agencies were selected for designation in their place. According to procedures for triennial renewal, 27 agencies designations were automatically terminated in FY 1985; and after review all 27 were renewed for an additional 3-year period. In FY 1984, there had been nine agencies that were granted discretionary conflict-of-interest waivers. Eight of these continue to operate without significant problems; the ninth voluntarily cancelled its designation this year.

Case Activity. At the beginning of FY 1985, 4 cases involving alleged violations of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946 were under active investigation. During this year, 12 cases were opened and 7 cases were closed, leaving 9 cases under active investigation at the close of FY 1985. Violations in these cases included alleged deceptive loading, attempted bribery, improper performance of duties, exporting without official inspection and intermarket grade differences. Onsite investigations were conducted by compliance personnel in six cases, and three investigations were conducted by the Office of the Inspector General (OIG). Of the seven cases closed, four were closed after appropriate administrative actions were taken; one case was closed based on action taken by OIG, and two cases were closed due to insufficient evidence to sustain a corrective action.

Compliance personnel were also involved in several other activities during FY 1985. These activities included:

-- Assisting OIG in investigating alleged quality discrepancies and quantity shortages in processed grain productions being exported.

-- Conducting special reviews of export grain elevator operations to determine whether such operations may be the cause of the increased number of foreign complaints.

-- Sending a letter to shipping agents in the Gulf to request their assistance in eliminating the offering of gratuities to FGIS personnel providing inspection and weighing services on grain shipments. Agents were also alerted to report the solicitation of gratuities by FGIS personnel.

Fourteen actions were handled involving the appearance of FGIS personnel as witnesses in judicial and administrative proceedings. Five of the cases involved accidents, one was a grain quality dispute, one involves a former employee's illness, three concerned official inspection records, and four concerned personnel records.

FEDERAL GRAIN INSPECTION SERVICE

INSPECTION AND WEIGHING SERVICES

STATUS OF PROGRAM

The U.S. Grain Standards Act of 1976 (USGSA) was amended in 1981 to require user fee funding for supervision and administration expenses starting October 1, 1981. As a result, FGIS' operating budget changed from 59 percent fee supported in FY 1981 to approximately 84 percent fee supported in FY 1985.

During FY 1985, FGIS continued emphasizing cost-effective management. A 12 percent reduction in the volume of export grain inspected during FY 1985 had a significant impact on inspection and weighing operations. Furlough and reduction-in-force actions and cross-utilizing employees with other USDA agencies were necessary to compensate for the reduced workload and revenue.

1. Inspection Activities

Current Activities: The USGSA requires, with minor exceptions, that all grain exported by grade must be officially inspected. Federal and delegated State agency licensed employees perform original inspections at export port locations in the United States and Canada. Grain inspection at interior (non-export) locations is performed on a request basis by designated State and private agency licensed employees. Federal employees perform original inspections of rice and related commodities on a request basis. FGIS employees supervise Federal employees and provide oversight for non-federal inspectors performing official service.

As mandated by the USGSA and Agricultural Marketing Act of 1946, all inspection activities are funded by user fees. Inspection activities consist of: (1) direct original and appeal inspection of grain, oilseeds, rice, and grain related products; (2) supervision activities, and (3) administration. Prior to FY 1982, only direct services were financed through user fees.

A decrease in grain exports in FY 1985 and fee adjustments effective August 1984 reduced revenues from original services and supervision fees. Overall, revenues and costs were near break-even in FY 1985. A further reduction in supervision fees becomes effective in FY 1986 and will reduce revenues, as well as the operating reserve, in that program. FGIS will continue cost containment efforts and closely monitor fee levels by program to assure recovery of costs.

Selected Examples of Recent Progress:

Technical Center. FGIS currently is working with Animal and Plant Health Inspection Service (APHIS) and General Services Administration (GSA) to establish an FGIS Technical Center in the Kansas City area. The Center is expected to be ready in the spring of 1986. U.S. Grain Standards development, inspection and scale testing research, quality control and final appeal inspection activities will be centralized at the Center.

Export Grain Quality. During FY 1985, FGIS began tabulating all wheat, corn and soybean export official inspection records to determine grain export performance against importers' grade requirements. This information was used to publish three export quality reports which covered 1984 corn, wheat and soybean exports. The inspection records revealed that during 1984 U.S. grain exports met or exceeded the applicant's grade requirements and contract specifications which were based on current U.S. grain standards. In the future, we plan to publish quality data for all major grains on a recurring basis.

Fumigation Research. In an effort to further improve insect control methods, we assisted the Agricultural Research Service (ARS) in conducting an in-transit fumigation study aboard a converted American liquified natural gas (LNG) vessel. FGIS also worked with ARS on an in-transit shipboard fumigation demonstration between the United States and the Federal Republic of Germany. In the past, Germany has voted against in-transit fumigation at the United Nations, International-Maritime Organization (IMO) meetings because of safety and efficacy concerns.

Insect Infestation. An internal FGIS task force reviewed existing inspection policies and procedures regarding insect infestation. The task force identified 33 problem areas and recommended possible solutions. FGIS has resolved many of the procedural problems. Policy issues have been presented to the FGIS Advisory Committee for further consideration.

New Equipment. FGIS purchased new, state-of-the-art instruments for protein testing. These new instruments, along with plans for centralized protein quality control, will improve protein program accuracy and reduce operating costs.

Equipment Safety. FGIS conducted a safety evaluation of laboratory inspection equipment to ensure that machine guards and electric wiring meets current Occupational Safety and Health Administration standards. Minor safety modifications will be made to some equipment as a result of the evaluation.

Inspection Seminars. FGIS held 59 formal grain and commodity seminars for approximately 850 individuals. The participants included FGIS employees, licensed inspectors, producers, grain industry representatives and foreign grain trade delegates and officials.

Urea Testing. Along with the Food and Drug Administration (FDA), FGIS encountered instances where wheat was treated with urea, a chemical compound that can inflate protein test results. FGIS immediately established a special urea testing service to prevent unnecessary marketing problems. Other than the initial instances, FGIS has not identified other urea treated shipments. Publicizing our intent to test for urea may have kept any treated wheat out of normal marketing channels and deterred treatment of additional lots of grain.

Aflatoxin Testing. To further improve inspection service, FGIS installed thin-layer chromatography (TLC) aflatoxin testing laboratories in Mobile, Alabama; Norfolk, Virginia; and Belle Chasse, Louisiana. The local TLC laboratories reduce the testing time since grain samples no longer need to be sent to the centralized Beltsville, Maryland, laboratory. The TLC testing process refines aflatoxin testing and confirms beyond doubt whether aflatoxin contamination is present.

Modified State Program. FY 1985 was the first year of operation for the States of California and Washington under modified delegation of authority agreements. The modified programs increased the States' responsibilities for inspection and weighing activities to improve overall program operations while reducing program costs. The programs operated extremely well in FY 1985. An evaluation is currently underway to determine whether changes in the agreements are necessary. The program will be offered to the six remaining delegated States for their consideration.

EDB Testing. FGIS continued to provide ethylene dibromide (EDB) testing upon request and conducted a survey of export shipments for carbon tetrachloride, and methyl bromide residue. Survey results were sent to EPA and FDA officials. To reduce the cost, EDB testing service was transferred from APHIS to our Beltsville Commodity Testing Laboratory. To date, testing results have detected virtually no traces of EDB.

2. Weighing Activities

Current Activities: Similar to the requirements for inspection, the USGSA requires, with some exceptions, that all exported grain be officially weighed. All weighing activities are funded by user fees. Weighing activities consist of direct services by Federal personnel, supervision of Federal and non-federal personnel, and technical and administrative support. The purpose of direct services is to ensure impartial and accurate grain weights.

Selected Examples of Recent Progress:

Weighing Specifications. During FY 1985, FGIS proposed to incorporate by reference the National Bureau of Standards' (NBS) Handbooks 44 and 105-1, two publications covering scale specifications and tolerances. This will allow us to condense and reduce FGIS weighing regulations, thereby eliminate unnecessary duplication between FGIS and NBS.

Computers and Weighing Systems. Technological advances in the area of scales and grain handling, such as, the use of programmable controllers and computers, require that FGIS constantly evaluate our program control procedures. FGIS is evaluating weighing program security procedures and developing an evaluation process for weighing systems that are interfaced to computers and programmable controllers.

Weighing Regulations. FGIS reviewed the adequacy of our current 15,000 metric ton exemption policy. The policy waives mandatory inspection and weighing requirements for grain facilities exporting less than 15,000 metric tons annually. Our review revealed that certain program modifications are necessary to ensure that the initial policy intent prevails. The primary change involves basing exemption eligibility on a company basis rather than a facility basis.

Series E, Agricultural Economics

ECONOMIC IMPLICATIONS OF ALTERNATIVE METHODS OF CERTIFICATING DOCKAGE IN U.S. WHEAT: AN EXECUTIVE SUMMARY

by

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ECONOMIC IMPLICATIONS OF ALTERNATIVE METHODS OF CERTIFICATING DOCKAGE IN U.S. WHEAT: AN EXECUTIVE SUMMARY*

by

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*This report is based on research conducted by ERS under Memorandum of Agreement No. 58-3J23-5-00014 (FGIS 12-36-5-0002) with the Federal Grain Inspection Service.

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ABSTRACT

The current procedure used in certificating the dockage content of U.S. wheat on official grade certificates disregards up to 0.49 of a percentage point of dockage present in each sample inspected. In an effort to achieve a more complete disclosure of the actual dockage content on official grade certificates, the Federal Grain Inspection Service (FGIS) proposed a change in the dockage rounding procedure in 1984. The proposal would involve rounding to the nearest one-half of a percentage point. Recently, the FGIS industry advisory committee recommended rounding the dockage content to the nearest tenth of a percentage point when recording on the official grade certificate. This paper summarizes the findings and conclusions of an ERS study of the implications of adopting one of these proposed methods. The economic impact of adopting one of the proposed methods would be small, and there are several potential benefits if adoption results in an overall reduction in the average dockage content of U.S. wheat.

KEY WORDS: FGIS, dockage, wheat grading, grading standards, wheat marketing

NOTES

This report is based on research conducted by ERS under Memorandum of Agreement No. 58-3J23-5-00014 (FGIS 12-36-5-0002) with the Federal Grain Inspection Service. The author acknowledges the helpful comments and suggestions of Harvey Kiser (Kansas State University), Allen Schienbein (Economic Research Service), and L. D. Schnake (Federal Crop Insurance Corporation) during the course of this study. The assistance of Larry Freese (Agricultural Marketing Service), Robert Butell and Steve Hoy (Federal Grain Inspection Service) in developing and editing the data bases on dockage content is gratefully acknowledged.

December 1985

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INTRODUCTION

Grading standards for wheat were established under the United States Grain Standards Act of 1916. The primary goal of the standards is to set up and maintain an impartial quality identification system to facilitate the merchandising of grain in interstate and foreign commerce. The grading standards for wheat requires that inspectors measure the dockage content of each sample and record that result on the official grade certificate when required.

Dockage content does not affect the numeric grade assigned to a wheat lot; however, it provides buyers with an estimate of the amount of non-millable material that would be removed when the wheat is cleaned prior to milling. Normal trade practices provide for an adjustment in the weight of a lot based on the certificated dockage content. Market price quotations are offers and bids for "dockage free" wheat which may contain as much as 0.49 of a percentage point of undisclosed dockage under current certification procedures.

The current procedure for certificating dockage (hereinafter referred to as Method A) raises questions related to fairness and accuracy in the minds of many buyers. As a result, proposals to revise the procedure are made from time to time. The purpose of this paper is to summarize the findings and conclusions of a recent study that focused on the economic implications of alternative methods of certificating dockage (4) [1]. That study is undergoing review and edit for publication under separate cover.

ALTERNATIVE METHODS OF CERTIFICATION

The current procedure, which was adopted in 1964, does not require that the dockage content be recorded on the official grade certificate when the amount is 0.49 of a percentage point or less. When the dockage content is equal to 0.5 of a percentage point or more, it is stated in terms of half percent, whole percent, or whole and half percent, as the case may be (See Method A, in table 1). Certificated dockage under this procedure is almost always less than the actual dockage content, and each lot can contain up to 0.49 of a percentage point of undisclosed dockage.

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[1] Underscored numbers in parentheses refer to publications listed in the reference section.

In 1984, the Federal Grain Inspection Service (FGIS) proposed a procedure whereby the unrecorded allowance would be reduced to one-fourth of a percentage point, and higher levels would be stated at 0.5 percent increments (See Method B in table 1). The proposal was withdrawn pending further study of the issue (_11_). Adoption of this procedure would have reduced the undisclosed dockage by 50 percent or more. Consequently, certificated dockage would have been a more accurate statement of the actual dockage content of a wheat lot.

Subsequent discussions of the subject have focused on other options open to FGIS. In 1985, the FGIS Advisory Committee recommended that FGIS consider certificating dockage content in 0.1 of a percentage point increments (See Method C in table 1). Adoption of this alternative would totally eliminate the problem of undisclosed dockage.

The practical and economic implications of adopting one of the proposed methods are summarized in the sections that follow. The economic analysis will focus on the domestic and export components of the demand for U.S. wheat as well as carryover stocks.

THE DOCKAGE CONTENT OF U.S. WHEAT

An evaluation of the economic implications of alternative methods of certificating dockage in U.S. wheat requires information on the actual dockage content of U.S. wheat as well as estimates of the amount of undisclosed dockage under the alternative methods of certification. Data on the actual dockage content of wheat moving in U.S. marketing channels were collected by FGIS and furnished to ERS for use in the study. These data were collected from two points in the marketing channel: (1) inbound-truck and submitted-sample inspections at interior markets; and (2) official, shiplot inspections of wheat loaded for export at various ports.

Dockage at Interior Inspection Points

Official inspection agencies in 17 states measured and reported the wheat dockage content of inbound-truck and submitted-sample inspections during the period of heavy deliveries following harvest in 1984. The data base contained the measured dockage content of 60,760 samples. The number of samples inspected for each class of wheat is shown in table 2.

Table 1. A comparison of actual and certificated dockage using alternative methods of certification

Certification procedure	Range of actual dockage	Certificated dockage
Method A 1/	0.00% to 0.49%	not stated
	0.50% to 0.99%	0.5%
	1.00% to 1.49%	1.0%
	1.50% to 1.99%	1.5%
	etc.	etc.
Method B 2/	0.00% to 0.25%	not stated
	0.26% to 0.75%	0.5%
	0.76% to 1.25%	1.0%
	1.26% to 1.75%	1.5%
	etc.	etc.
Method C 3/	0.00% to 0.05%	not stated
	0.06% to 0.15%	0.1%
	0.16% to 0.25%	0.2%
	. . .	.
	. . .	.
	. . .	.
	0.96% to 1.05%	1.0%
	etc.	etc.

1/ Procedure adopted in 1964.
2/ Procedure proposed in 1984.
3/ Procedure recommended by the FGIS Advisory Committee in 1985.

Table 2. A comparison of mean actual inbound truck dockage and average amount of certified dockage under current and proposed methods of certification, by class of wheat, United States, 1984 1/

Class of wheat	Samples in the analysis	Mean dockage content	Mean certificated dockage2/			Net differences	
			Method A	Method B	Method C	B-A	C-A
	Number	Percent		Percent			Percent
Durum	2,025	1.07	0.83	1.07	1.08	0.24	0.25
Hard Red Spring	8,793	.98	.73	.98	.98	.25	.25
Hard Red Winter	29,346	.96	.71	.96	.97	.25	.26
Soft Red Winter	7,831	.92	.67	.93	.93	.26	.26
White	12,765	.99	.73	.99	.99	.26	.26
All classes	60,760	.97	.72	.97	.97	.25	.26

1/ Percentage dockage in all classes is a weighted average using the number of samples inspected for each class as a weighting factor.

2/ The dockage content of each sample was "certificated" according to the three methods illustrated in table 1 before the means for each class of wheat were computed.

The dockage content of each sample was reported in hundredths of a percentage point. The overall mean dockage content of all samples was 0.97 percent, and the average for individual classes ranged from a low of 0.92 percent for soft red winter (SRW) to a high of 1.07 percent for durum (DUR) (table 2). Since the samples were either submitted by elevators or collected from inbound truck receipts at the point of first inspection, the results should be representative of the wheat entering the marketing channel in 1984 before extensive mixing and blending was performed.

The dockage content of each sample was "certificated" according to the rounding methods currently used (Method A) or being considered by FGIS (Methods B and C). The average amount of certificated dockage under each procedure was then computed for each class and those results are also presented in Table 2. Overall, the amount of certificated dockage under Method A understated the true dockage content by 0.25 of a percentage point on average. The average amounts certificated under Methods B and C were accurate reflections of the true means. These results indicate that either of the proposed methods would more accurately or more fully disclose the true dockage content on average and would be more equitable for all parties involved in buying and selling wheat. Buyer uncertainty concerning the true dockage content of the wheat represented by a grade certificate would be greatly reduced under Method B and would be eliminated under Method C.

Adoption of Method B would alter the distribution of samples among the various dockage-certification levels. For example, samples with dockage contents of 0.26 to 0.49 percent would be certificated at 0.5 percent rather than not stated. The distribution of samples by level of certificated dockage using Methods A and B are compared in table 3. Since a majority of the samples in which dockage would not be stated under the current standards have a measured dockage in excess of 0.25 of a percentage point, there would be a substantial decline in the proportion of samples certified as having no dockage under Method B. This decline would be offset by smaller increases in the proportion certificated at other levels. Overall, 50 percent of the samples would be certificated at the 0.5-percent level if Method B were adopted and used to round the dockage content for purposes of recording on the grade certificate.

The distributions of samples inspected at interior points with dockage content certificated to tenths of a percentage point (Method C) are shown by class of wheat in table 4. The medians of these distributions ranged from 0.6 percent for SRW to 0.9 percent for DUR. The distributions were more peaked for the classes HRW, SRW, and WHI with modes of 0.4-0.5 percent. Samples representing the classes DUR and HRS generally contained more dockage overall; however, all classes

Table 3. A comparison of the distribution of interior wheat inspections by level of certificated dockage using Methods A and B and by class of wheat, 1984

Certificated dockage content	Dockage certification procedure			
	Method A	Method B	Method A	Method B
	Percent			
	Durum		Hard Red Spring	
not stated	19.5	3.7	28.0	8.4
0.5%	37.3	36.5	38.8	41.7
1.0%	23.4	30.7	18.0	28.0
1.5%	10.9	16.1	6.8	11.2
2.0%	4.2	6.4	3.3	4.2
2.5%	2.4	3.2	1.8	2.5
3.0%	.8	1.6	1.1	1.3
3.5%	.4	.6	.7	.8
4.0% or more	1.1	1.2	1.5	1.9
	Hard Red Winter		Soft Red Winter	
not stated	30.6	5.9	36.5	8.6
0.5%	45.5	53.8	36.5	51.8
1.0%	12.4	24.9	13.6	20.5
1.5%	3.9	6.4	5.9	9.6
2.0%	1.9	2.6	2.7	3.8
2.5%	1.1	1.5	1.7	2.1
3.0%	1.0	1.0	.8	1.2
3.5%	.8	.9	.4	.5
4.0% or more	2.8	3.0	1.9	1.9
	White		All classes	
not stated	33.1	6.8	31.2	6.7
0.5%	37.5	50.0	41.4	50.4
1.0%	15.0	23.3	14.3	24.7
1.5%	5.5	8.8	5.2	8.3
2.0%	3.0	4.0	2.5	3.4
2.5%	1.6	2.2	1.4	1.9
3.0%	1.0	1.1	1.0	1.2
3.5%	.7	.8	.7	.8
4.0% or more	2.6	3.0	2.3	2.6

Table 4. Distribution of interior inspections with dockage content rounded to tenths (Method C), by class of wheat, major inspection points, 1984

Certificated dockage content	Class of Wheat				
	DUR	HRS	HRW	SRW	WHI
			Percent		
0.0%	0.1	0.1	---	0.2	---
.1%	.9	3.1	1.3	1.6	1.3
.2%	2.5	5.2	4.0	6.8	5.0
.3%	4.1	7.0	7.9	10.1	9.5
.4%	8.1	8.1	10.9	11.7	11.3
.5%	8.2	8.8	12.4	11.6	11.8
.6%	8.6	8.8	11.9	9.4*	9.3
.7%	7.4	8.1	10.3*	8.2	8.0*
.8%	7.3	7.5*	8.3	6.2	7.0
.9%	7.3*	7.4	6.5	5.1	5.2
1.0%	6.1	4.8	4.8	3.9	4.6
1.1%	5.1	4.7	3.4	2.8	3.9
1.2%	4.9	4.1	2.8	2.8	3.2
1.3%	4.1	3.3	2.1	2.6	2.7
1.4%	4.1	2.7	1.5	2.4	2.0
1.5%	2.9	2.2	1.2	2.0	1.9
1.6%	3.1	1.9	1.0	1.7	1.3
1.7%	2.1	1.4	.8	1.1	1.1
1.8%	2.1	1.2	.7	.9	1.1
1.9%	1.7	.8	.6	1.0	.8
2.0%	1.0	.8	.5	.8	.8
2.1%	.9	.8	.4	.6	.6
2.2%	.8	.7	.4	.6	.7
2.3%	.7	.5	.4	.4	.5
2.4%	.9	.8	.4	.4	.6
>2.4%	5.0	5.4	5.5	5.1	6.8

* Median of distribution

had a sizeable number of high-dockage lots. Five percent or more of the samples in each class had a dockage content in excess of 2.4 percent.

The aggregated results for all classes in table 3 indicate that 69 percent of the wheat lots entering the marketing channel in 1984 would require cleaning to avoid a reduction in weight as a result of dockage under the current standards. The proportion needing cleaning in order to avoid a weight reduction during settlement under Method B would increase to 93 percent.

Dockage at Export Inspection Points

Data on the average dockage content of 2,687 official, shiplot inspections of wheat were collected from ship-loading logs by FGIS and made available for the study. The size of the various lots ranged from less than 100 tons to fully loaded bulk vessels containing more than 70,000 tons. Because of this wide range in lot sizes, the quantity of wheat in each lot was used as a weight in computing means and developing frequency distributions.

The mean dockage contents for the wheat classes HRW, SRW, and WHI were substantially lower than the means computed at interior inspection points and shown in table 2. The means for each class at export points are shown in table 5. The fact that the class means are lower suggest that either dockage is being removed through cleaning operations or wheat lots with a lower dockage content are moving into export channels.

In order to compare and contrast the alternative certification methods, the dockage content of each lot was certificated according to the current and proposed procedures, and means for each class and method were computed. Those results are also shown in table 5. Overall, the current standards (Method A) allowed 0.24 of a percentage point of hidden dockage on average or about one-third of the dockage present in the wheat to not be disclosed on official grade certificates. In contrast, Method C yielded means of certificated dockage content that were almost identical to the true means of dockage content. As noted before, Method B is a less precise procedure, and the mean certificated dockage for each class varies somewhat from the true means. If Method B were to be adopted handlers would likely adjust their cleaning and blending practices in a fashion that "under-disclosure" would still exist but it would be reduced by 50 percent or more.

The distributions of export wheat lots by level of certificated dockage under Methods A and B are shown in table 6. The classes DUR and HRS generally contained higher levels of dockage and few lots were certificated as "dockage free"

Table 5. A comparison of actual dockage in export wheat and amounts of certified dockage under current and proposed methods of certification, by class of wheat, United States, 1984 1/

Class of wheat	Volume inspected	Mean dockage content	Mean certificated dockage2/			Net differences	
			Method A	Method B	Method C	B-A	C-A
	Mil. bu.			Percent		Percent	
Durum	75.2	1.09	0.82	1.12	1.09	.30	.27
Hard Red Spring	206.0	.88	.61	.91	.89	.30	.28
Hard Red Winter	740.4	.65	.42	.59	.65	.17	.23
Soft Red Winter	225.0	.68	.49	.62	.68	.13	.19
White	209.0	.64	.33	.67	.64	.34	.31
All classes	1,455.6	.71	.47	.68	.71	.21	.24

1/ Percentage dockage in all classes is a weighted average using the volume inspected for export for each class as a weighting factor.

2/ The dockage content of each sample was "certificated" according to the three methods illustrated in table 1 before the means for each class of wheat were computed.

Table 6. A comparison of the distribution of export wheat inspections by level of certificated dockage using Methods A and B and by class of wheat, 1984

Certificated dockage content	Dockage certification procedure			
	Method A	Method B	Method A	Method B
	Percent			
	Durum		Hard Red Spring	
not stated	.1	.0	3.7	.4
0.5%	37.9	4.1	72.1	21.1
1.0%	60.8	68.3	22.6	74.9
1.5%	1.2	27.4	1.6	3.3
2.0%	.0	.2	.0	.3
	Hard Red Winter		Soft Red Winter	
not stated	15.7	.1	7.5	.1
0.5%	83.9	81.6	87.5	77.8
1.0%	.4	18.1	4.4	20.7
1.5%	.0	.2	.6	1.4
2.0%	.0	.0	.0	.0
	White		All classes	
not stated	36.7	.5	14.8	.2
0.5%	59.9	65.7	77.1	66.3
1.0%	3.2	33.4	7.7	31.2
1.5%	.2	.4	.4	2.2
2.0%	.0	.0	.0	.1

using either Method. Adoption of Method B would substantially reduce the proportion certificated at the 0.5% level. In the case of DUR, this decline is offset by a noticeable increase at the 1.5% level. In contrast, the shift for the class HRS is from the 0.5% level to the 1.0% level. For all other classes, the proportion certificated as "dockage free" declined while the proportion certificated at the 1.0% level increased when Method B was used.

The distribution of export inspections when dockage was "certificated" to the nearest tenth of a percentage point (Method C) is shown by class of wheat in table 7. These distributions reveal why the results under Method B (table 6) were substantially different for different classes. For example, a sizeable proportion of HRS lots had dockage contents of 0.8 and 0.9 percent, but were certificated at the 0.5% level under Method A. All of these lots would move to a higher certification level (1.0%) if Method B were adopted. Adoption of Method C would result in a full disclosure of dockage and would eliminate the existing incentive to blend to the high end of certification increments.

ECONOMIC IMPACT OF ALTERNATIVE CERTIFICATION METHODS

The economic impact of adopting either of the proposed methods of certificating dockage depends upon how market participants view the market price quotations for wheat in relation to the certificated dockage content. Since certificated dockage is deducted from the weight of a wheat lot in the settlement process, the market price quotations are offers and bids for "clean" wheat. Thus, the impact depends upon traders' expectations concerning undisclosed or "hidden" dockage present in "clean" wheat. These expectations vary from one trader to another based on past experiences; therefore, three scenarios of market behavior were hypothesized for the analysis in order to cover the full range of possibilities.

Scenarios of Market Behavior

The three scenarios of market behavior used in the analysis are identified as (1) naive market behavior, (2) average market behavior, and (3) sophisticated market behavior. In a naive market, buyers and sellers are assumed to enter market transactions based on the expectations that the certificated amount of dockage is the maximum amount of dockage in the lot. Trading on the belief that certificated dockage is the maximum present in the lot would result in greater discounts under certification Methods B and C relative to Method A since the certificated dockage content would be higher under those methods (see tables 2 and 5). This scenario is not believed to be typical market behavior in the

Table 7. Distribution of export inspections with dockage content rounded to tenths (Method C), by class of wheat, U.S. ports, 1984

Certificated dockage content	Class of wheat				
	DUR	HRS	HRW	SRW	WHI
	Percent				
0.0%	---	---	---	---	---
.1%	---	.4	.1	.1	---
.2%	---	---	---	---	.4
.3%	---	.1	1.3	.3	3.3
.4%	.1	1.5	3.2	4.3	22.8
.5%	.0	4.2	13.4	12.3	14.4
.6%	.4	6.8	32.5*	26.1	12.6*
.7%	2.8	7.7	30.5	32.4*	11.6
.8%	7.0	16.5	11.2	13.1	17.0
.9%	20.0	28.4*	7.4	6.3	12.1
1.0%	17.4	18.0	.1	1.1	2.6
1.1%	11.3*	8.7	.1	2.1	.8
1.2%	13.2	3.8	.0	.5	2.0
1.3%	14.0	1.4	---	.7	---
1.4%	11.5	.8	.2	.1	.2
1.5%	1.1	.1	---	---	---
1.6%	.9	.9	---	.6	---
1.7%	---	.4	---	.0	---
1.8%	.2	---	---	---	.2
1.9%	.1	.3	---	---	---

*Median of distribution

U.S. wheat industry; however, it was included in the analysis as the "worse-case" scenario.

The average market scenario assumes that buyers enter transactions based on the average amount of undisclosed dockage received in previous transactions. Based on the data in tables 2 and 4, buyers would expect, on average, to receive about one-fourth of a percentage point of undisclosed dockage in each lot purchased. For purposes of analysis, the amount of undisclosed dockage under Method A was assumed to be 0.25 of a percentage point. The amount of undisclosed dockage under Method B was assumed to average 0.1 of a percentage point.

The sophisticated market scenario assumes that market transactions occur based on the expectations that the certificated amount of dockage under the current standards (Method A) understates the true dockage content by 0.44 of a percentage point. Likewise, market transactions under certification Method B would be based on the expectations that certificated dockage understates true dockage by about 0.2 of a percentage point.

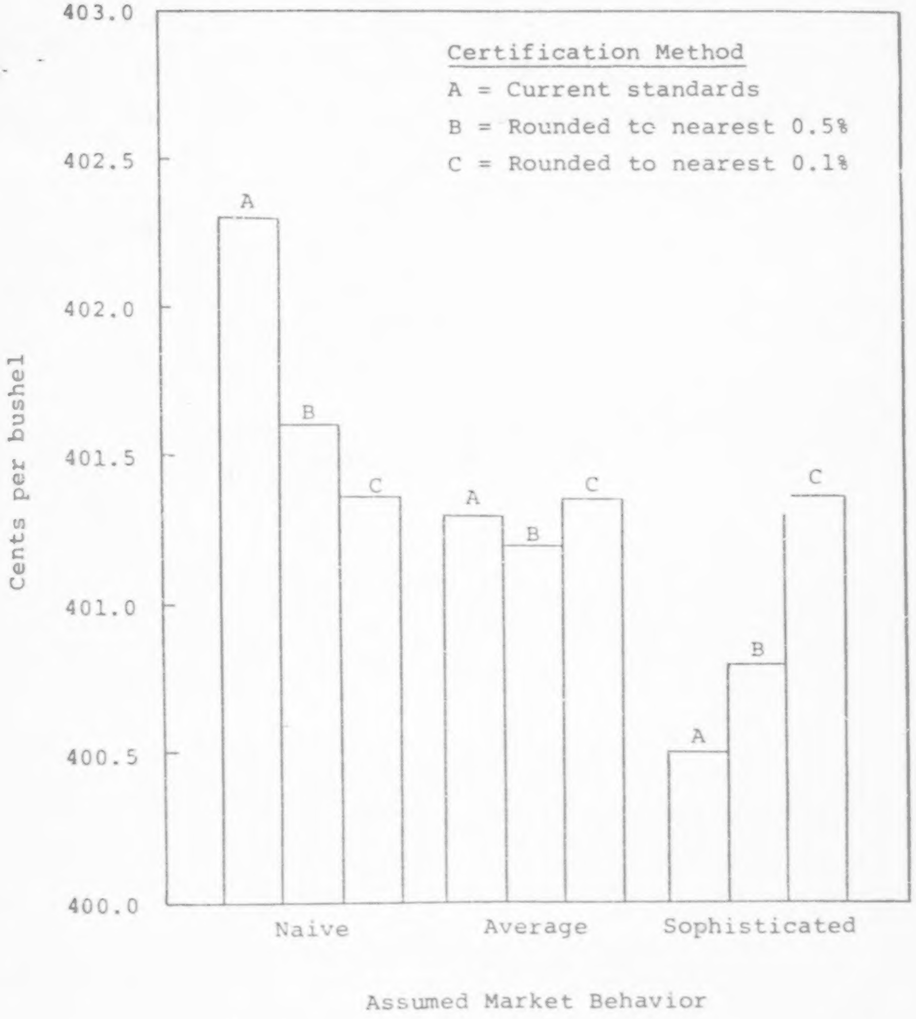
Expectations concerning "hidden" dockage would be eliminated if Method C were adopted for certificating dockage. Consequently, the discounted price for a particular wheat lot would be the same for all market behavior scenarios.

Net Price Differences by Market Scenario

A pricing and discounting procedure was developed so that a unique discounted price for each lot was estimated under each certification method and market-behavior scenario. The base prices used in the procedure were the average prices during the 1984/85 marketing year at terminal and port locations (table 8). The average prices at terminal markets were used in conjunction with samples inspected at interior inspection points to calculate weighted average discounted prices for each class of wheat. The average price for each class of wheat at the various ports was used in conjunction with the dockage data collected at ports in estimating a unique discounted price for each lot under each method of dockage certification and market behavior scenario.

The relationships among average discounted prices given alternative market behavior scenarios and methods of dockage certification, are illustrated in figure 1. This example is for an average lot of hard red winter at U.S. ports and the base market price was $4.04 per bushel (table 8). The average discounted prices in this case were:

Figure 1. Average discounted prices for hard red winter wheat at U.S. ports under alternative dockage certification procedures and market behavior patterns, 1984/85



Market behavior	Method A	Method B	Method C
		Cents per bushel	
Naive	402.290	401.610	401.362
Average	401.280	401.206	401.362
Sophisticated	400.513	400.802	401.362

Table 8. Average wheat prices at various stages of the marketing system, United States, 1984/85 marketing year

Class of wheat	Received by farmers1/	Terminal market prices2/	Delivered port regions3/
		Dollars per bushel	
Durum	3.70	4.37	4.47
Hard Red Spring	3.54	4.08	4.44
Hard Red Winter	3.34	3.74	4.04
Soft Red Winter	3.33	3.57	3.72
White	3.43	3.82	3.86

1/Average price received by farmers in major producing states.

2/Minneapolis -- durum and hard red spring; Kansas City -- hard red winter; St. Louis -- soft red winter, and Portland -- soft white.

3/Prices are averages for major ports weighted by export shares. DUR and HRS prices are averages of Duluth, Gulf, and Pacific Northwest (PNW), HRW prices are averages of Gulf and PNW; SRW prices are averages of East Coast and Gulf; and WHI is for PNW only.

Source: (9, pp. 28-29, and 7, selected issues).

The average discounted prices were then used to compute net price changes for certification Methods B and C relative to Method A for each market behavior scenario. In the above example, the net per unit price changes are:

Market behavior	Method B	Method C
	Cents per bushel	
Naive	-0.680	-0.928
Average	-0.074	+0.082
Sophisticated	+0.289	+0.849

Although the study focused on price changes and impacts for individual classes of wheat, only the overall weighted averages will be presented in this paper. The weighted average price changes at various stages of the marketing channel under each market behavior scenario are presented in table 9. It should be remembered that the naive market represents the "worse-case" scenario, and the impact never exceeds 1 cent per bushel regardless of the location or certification option. Under the average market scenario, the impact of adopting one of the proposed certification method B was estimated to be less than 0.4 of a cent per bushel in all cases, and the impact of adopting Method C was very small.

Under the sophisticated market scenario the impact of adopting Method B would be small in all cases. Under this market behavior, adoption of Method C for certificating dockage would enhance market values by about 0.7 of a cent per bushel which would offset the additional weight reductions resulting from higher levels of certificated dockage. Wheat traders in the United States are believed to have rather sophisticated expectations regarding undisclosed dockage; therefore, these results would strongly support the adoption of certification Method C since undisclosed dockage would be eliminated.

Estimates of the per unit price changes for each class at the terminal and port levels were used in conjunction with data on domestic use, exports, and carryover stocks (table 10) to estimate the change in total value. The combined impact at interior markets and export regions plus the impact on the value of stocks are shown in table 9, given alternative market behavior scenarios. In the naive market, adopting Method C would have an overall negative impact of about $39 million.

Table 9. Estimated weighted average per unit and total change in value of wheat resulting from the adoption of dockage certification Methods B and C by market sector and market behavior, 1984/85 marketing years

Market sector and certification method	Market behavior scenario		
	Naive	Average	Sophisticated
	Cents per bushel		
INTERIOR MARKETS			
Method B	-.970	-.385	-.045
Method C	-.971	-.044	+.674
EXPORT REGIONS			
Method B	-.846	-.242	+.120
Method C	-.981	+.025	+.789
INVENTORIES			
Method B	-.968	-.387	-.039
Method C	-.996	-.027	+.709
	Thousands of Dollars		
INTERIOR MARKETS			
Method B	-11,199	-4,444	-520
Method C	-11,214	-505	+7,788
EXPORT REGIONS			
Method B	-11,521	-3,299	+1,638
Method C	-13,360	+337	+10,752
INVENTORIES			
Method B	-13,790	-5,509	-549
Method C	-14,181	-384	+10,100
TOTAL			
Method B	-36,510	-13,252	+569
Method C	-38,755	-552	+28,640

Table 10. Supply and disappearance of wheat by class, United States, 1984/85 marketing year

Item	Class of wheat					All classes
	DUR	HRS	HRW	SRW	WHI	
	Million bushels					
Supply:						
Beg. stocks	99	314	745	74	167	1,399
Production	103	409	1,251	532	300	2,595
Imports1/	5	2	0	0	2	9
Total	207	725	1,996	606	469	4,003
Disappearance						
Domestic use	46	172	562	289	86	1,155
Exports1/	61	183	717	253	210	1,424
Total	107	355	1,279	542	296	2,579
Ending stocks	100	370	717	64	173	1,424

1/Imports and exports include flour and products in wheat equivalents.

Source (8, p. 18)

At the other extreme, adopting Method C in a sophisticated market environment would have a positive impact of about $29 million.

The average market behavior scenario would appear to give the most realistic estimates of the economic impacts of adopting one of the proposed methods. The larger impact resulting from the adoption of Method B should disappear as handlers adjust blending targets. The potential amount of undisclosed dockage assumed for Method B was present only in the export data for HRW and SRW. In fact, the economic impact of adopting Method B was positive at export points for the class SRW since undisclosed dockage was actually greater than the amount assumed under the average market scenario. It should be noted that the inventory impact is a one time occurrence.

These results suggest that the economic impact would be quite variable depending upon the bargaining position of individual buyers and sellers. The total value of a particular crop of wheat is determined from the value of products that can be produced from the wheat and not by the procedure used to certificate dockage. The extent to which individual producers are impacted as a result of adopting one of the proposals will depend upon the competitiveness of the local market where the producer delivers wheat. The economic well-being of producers who deliver clean wheat to market should not be adversely affected. In contrast, producers who routinely deliver wheat with a high dockage content would be discounted accordingly.

In addition to direct price impacts that would result, there are several issues and implications related to the proposals that are difficult to quantify economically that have a bearing on the final decision regarding the adoption of an alternative dockage certification procedure. These implications are addressed in the next section.

OTHER IMPLICATIONS OF THE PROPOSALS

Other issues that relate to the decision concerning dockage certification procedures used in the United States are difficult to quantify economically for the industry as a whole. Inventory management and merchandising practices as well as cleaning and blending capabilities vary substantially from one firm to another and from one location to another. Likewise, the level of dockage and the potential problems that dockage can cause appears to vary greatly from one location to another and among the classes of wheat. With this in mind, some of the major issues will be addressed in this section to determine what conclusions if any can be reached, given the data limitations that exist.

Improved Pricing Efficiency

Adoption of Method C would eliminate the uncertainty with regard to undisclosed dockage. There is little doubt that grade certificates which accurately describe the grain being traded would result in a more efficient price discovery process. There is uncertainty about the amount of undisclosed dockage present in wheat graded under current standards. As a result, the relative value of wheat lots that are identical except for certificated dockage content can be distorted.

To illustrate how undisclosed dockage reduces pricing efficiency, an example will be presented. Suppose that a foreign buyer purchased two 50,000 metric ton shiplots of U.S. No. 1 HRW wheat for $150 per metric ton (FOB Gulf ports). One shiplot was loaded with wheat that contained 0.44 of a percentage point of dockage, the average of all HRW exports in 1984 that were certificated as "dockage free". The second shiplot was certificated at 0.5% dockage and contained 0.68 of a percentage point of dockage, the average of all HRW exports certificated at that dockage level in 1984.

The calculation of net cost per ton of "millable" material from each lot is presented in table 11. In this example, the buyer paid an average of 39 cents per metric ton

Table 11. A comparison of the costs per unit of millable material for shiplots certificated at different dockage levels

Item	Unit of measure	Ship No. 1	Ship No. 2
Tons loaded	met. tons	50,000	50,000
Dockage content	percent	.4	.68
Certificated dockage	do.	0.0	0.5
Certificated dockage	met. tons	0	250
Net purchase	do.	50,000	49,750
Undisclosed dockage	do.	220	90
Millable material	do.	49,780	49,660
Cost of wheat	thous.dols.	7,500.0	7,462.5
Cost of millable material	dol. per met. ton	150.66	50.27

(1.06 cents per bushel) more for millable material in the shiplot that was certificated as "dockage free" at the U.S. port.

Reasoning along these lines leads to the following question: How much would prices increase if a dockage certification procedure were adopted that would eliminate the problem of undisclosed dockage in U.S. wheat? The answer depends upon the average market price and the average amount of undisclosed dockage. The analysis revealed that aggregate domestic users were paying $10.9 million for hidden dockage, or about 0.95 cents per bushel. Likewise, foreign buyers were paying about $14.8 million, or about 1.01 cents per bushel. Buyers could pay this much more per bushel if the dockage content was accurately certificated.

The price changes can be estimated directly by holding total revenue constant and adjusting the volume by the increase in certificated dockage. The calculations using the weighted average prices for all classes at interior markets and U.S. ports are presented in table 12. Adopting certification Method C would have little impact on merchandisers since the one-cent gain in the base price of clean wheat would be offset by weight correction resulting from a full disclosure of dockage.

Table 12. Projected change in market prices following the adoption of an accurate procedure for certificating the dockage content of U.S. wheat

Certification Method	Marketing year 1984/85		
	Quantity	Price	Revenue
	mil. bu.	dol./bu.	mil.dols.
Method A			
Domestic use	1,155.0	3.7800	4,365.9
Exports	1,362.0	4.1700	5,679.5
Method C 1/			
Domestic use	1,152.1	3.7895	4,365.9
Exports	1,358.7	4.1801	5,679.5

1/The quantity used in domestic markets was adjusted to account for an increase of 0.25 of a percentage point in certificated dockage. The certificated dockage content of exports increased by 0.24 of a percentage point, and the quantity is adjusted by that factor.

Eliminate Many Disputes Between Buyers and Sellers

Proponents of a change refer to buyer confidence in U.S. grade certificates as a reason for change. Others argue that buyers understand the U.S. standards and expect actual dockage to exceed the certificated dockage content. Thus, a major issue concerns the reason for complaints by foreign buyers (5). The unanswered questions are: (a) Which buyers are complaining? (2) What class of wheat are they buying? (3) Are the complaints related to dockage content or undisclosed dockage?

If the reason for complaints relates to undisclosed dockage in U.S. wheat, adopting Method C would solve the problem, and adopting Method B would reduce it substantially. If the complaints relate to the actual dockage content of U.S. wheat, there is no conclusive evidence that a change in dockage certification procedure will result in a cleaner product moving into export channels.

Another source of disputes between buyers and sellers has to do with changes in inspection results from one inspection to another. The magnitude of changes in certificated dockage between inspections would be reduced if Method C were to be adopted. Variability in sampling from the same lot could yield different certificated results under the current method of dockage certification. Consider, for example, a sample drawn from a lot at the shipping point that has a dockage content of 0.95 percent. If another sample is drawn and inspected at the destination and the dockage content is determined to be 1.05 percent, the certificated dockage content increases from 0.5% to 1.0%, a 100 percent increase! The likelihood of this happening in export grain is great. Lighter dockage tends to segregate as wheat is loaded aboard ships. Consequently, when the ships are unloaded at overseas destinations and divided into sublots, there is a potential for a wide variation in the dockage content of sublots. Some sublots would be exceptionally clean while others would have dockage contents well in excess of the certificated level.

The data presented on the dockage content of U.S. wheat inspected at various ports suggest that if the complaints relate to the actual dockage content of U.S. wheat rather than undisclosed dockage, then the problem may rest mainly with the classes durum and hard red spring. Sixty-two percent of the durum exports had a dockage content in excess of 1.0 percent. In contrast, 95 percent or more of the shipments of the classes HRW, SRW, and WHI had a dockage content below 1.0 percent. A sizeable proportion of hard red winter and white wheat shipments were certified as "dockage free," meaning that the dockage content was below 0.49 of a percentage point and would not be stated on the grade certificate. Most of these lots contained near the maximum amounts of undisclosed dockage that is permitted under current standards which complicates the pricing process.

Alter Current Blending Practices

There is little doubt that the blending practices followed by grain merchandisers would be altered if one of the proposals were adopted. Blending is an accepted practice in the U.S. grain industry where wheat lots with varying quality attributes are blended to develop a uniform lot to meet the specific needs of buyers. Buyers also prefer a uniform product with respect to dockage which is not a grade determining factor, and blending or mixing is an acceptable means of offering a product with a uniform dockage content.

The "free allowance" or potential for undisclosed dockage in the current standards, provides a strong economic incentive to blend to targets just under the break points for certification (0.49%, 0.99%, 1.49%, etc.). Adoption of Method B would reduce the incentive; however, blend targets would still exist. Exporters of durum and hard red spring wheats would likely try to blend to either 0.7 or 1.2 percentage points of dockage. Exporters of other classes would set their target at 0.7 of a percentage point. Those that have cleaning facilities could still ship "dockage free" wheat by lowering the dockage content to 0.25 of a percentage point or less.

Adoption of Method C would eliminate the incentive to blend clean wheat with lots that contain dockage. There would be some incentive to keep wheat clean; therefore, buyers who prefer clean wheat would have better access to such a product.

Incentives for Cleaning

The economic incentive to clean wheat would be affected. A recent study at Kansas State University estimated the partial cost of cleaning wheat at country elevators. An aspiration-type cleaner was found to be an economical approach to lifting lighter dockage from wheat (2). This work was followed up with a case study of a country elevator that is using an aspiration-type cleaner (3). The operating cost associated with this system averaged about 1 cent per bushel handled.

The profitability of cleaning wheat at the first-handler level depends upon the annual volume cleaned, the potential savings in transportation costs, the price received for liftings or screenings, and the potential price premiums for clean wheat. Adoption of certification Method C would bring the potential savings in transportation cost clearly into focus. The economic incentives to clean wheat would be greater if Methods B or C were adopted since the weight adjustments for dockage would be greater for a typical lot of wheat. The decision on cleaning would still rest with the individual farmer or elevator operator; however, there would be no incentive to "maintain the weight" by leaving dockage in the wheat.

Some perceived benefits that would accrue if additional cleaning takes place include improved quality maintenance resulting from a reduced food supply for insects, reduced costs of maintaining pollution control equipment, and a strengthened competitive position of U.S. wheat in world markets. It must be emphasized, however, that changing the method for certificating dockage will not necessarily mean that domestic processors and foreign buyers will receive a cleaner product.

Dockage and Quality Maintenance

A number of studies have focused on the problem of insects in stored grain. The existing literature on the subject identifies temperature, moisture, and dockage as key variables in the life cycle and reproduction of insects in wheat. In general, the rate of development and the reproductive capacity of all grain insects increase with the temperature of the grain mass. Aeration can be used to lower the temperature of stored grain when climatic conditions are favorable. Once the temperature of the grain mass is reduced below a certain point, oviposition ceases and adult insects are short-lived.

Likewise, insects depend upon their food supply for the moisture needed to carry on their life processes. In general, increasing the level of moisture favors rapid increases in the number of insects. If the moisture level is low, the survival rate for insects is greatly reduced. In clean whole-kernel grain, a high moisture content is essential for reproduction and survival.

Since dry, clean wheat is unfavorable for reproduction of insects, the dockage and dust components of a grain mass become important factors affecting the reproduction and survival of insect pest. McGregor found that dockage greatly enhanced the ability of certain insects to develop in stored wheat (6). These results were in agreement with the findings of Cotton, *et al*. (1). In general, these researchers found that the number of insects present in stored wheat was directly proportional to the percentage of available dockage.

These results indicate that cleaning wheat to remove dockage prior to storage would be one means of controlling certain stored grain insects. Since dockage creates a favorable environment for insects, the adoption of a dockage certification procedure which eliminates the incentive that exists under current standards to leave dockage in wheat to "maintain the weight" would have a favorable impact on quality maintenance. The United States has the capability to produce high quality wheats, and the challenge is to maintain that quality throughout the marketing channel.

CONCLUSIONS

The study led to several conclusions, and most weigh in favor of adopting one of the alternative methods for certificating dockage. The degree to which the potential benefits would be achieved under proposed Methods B and C vary somewhat. The major conclusions are summarized below:

1. *More accurate description of the raw grain*.

A primary objective of grain standards and inspection services is to accurately describe the physical and biological condition of the grain represented by an official sample. An accurate description of a particular lot of wheat allows processors and millers to estimate its value in terms of product values and translate those values into prices they can bid for the raw grain.

2. *More consistent inspection results on the same lot*.

There is great potential for inspection results for a particular lot to change from one inspection to another under the current method of certificating dockage. Variability in sampling alone could result in a higher level of certificated dockage when the true dockage content of a particular lot is near the limit for a particular level of certification. The problem would still exist if Method B were adopted. In contrast, adoption of Method C would eliminate the problem for the most part.

3. Improve pricing efficiency.

The market's ability to provide rewards to sellers of clean grain is hampered under the current system of dockage certification. Buyers must implicitly expect to receive near the maximum amount of "hidden" or undisclosed dockage in wheat certificated as "dockage free," and market price quotations reflect this expectation. Adoption of Methods B and C would alter these expectations and market prices would adjust accordingly.

4. Remove incentive to blend dockage into clean grain.

The free allowance for dockage under the current standards provides handlers with an incentive to blend high dockage lots with lots of clean wheat. Clean wheat is an excellent raw material to use in blending to reduce the dockage content of high-dockage lots. A lot with 0.9 of a percentage point of dockage can be mixed with a equal size lot of clean wheat to yield a combined lot with an average dockage content of 0.45 of a percentage point which would not be stated on the official grade certificate. This is a legitimate and common practice under current standards. Adoption of Method B would reduce the existing incentive to blend on the basis of dockage, and adoption of Method C would eliminate it completely.

5. Remove subsidy on producers who deliver wheat with a higher-than-average dockage content.

Producers who deliver clean wheat subsidize the price received by those who deliver a higher-than-average dockage content when an elevator purchases wheat on a station-average basis. Adoption of Method C would provide elevator operators with a greater incentive to measure dockage on inbound wheat and assess a cleaning charge on high dockage lots.

6. Place the decision on cleaning on individual elevator operators.

Accurate measurement of dockage would alter decision making with respect to cleaning. The value of dockage as a feed ingredient at the local level, the transportation cost to market, the cost of cleaning, and the dockage content of individual lots are the key variables in the cleaning decision. The marketing strategies of elevator operators may range from cleaning everything to cleaning nothing. Some may clean only the lots that contain excessive dockage. The economic variables will determine what elevator operators considers to be an excessive dockage content.

7. Facilitate quality maintenance.

If the adoption of an alternative dockage certification procedure leads to an overall reduction in the dockage content of wheat delivered by farmers, existing insect problems would be reduced. Quality maintenance during storage would be facilitated, and dust control problems created during handling operations would be reduced.

8. Alter blending practices.

Adoption of Method B would alter the blend targets for firms that blend to a dockage content just below a break point for certification under current standards, e.g. 0.49%, 0.99%, etc. The new targets would be just below 0.25%, 0.75%, etc. Handlers who have cleaning facilities could still market "dockage free" wheat if the average dockage content was lowered to 0.25 of a percentage point or less. Adoption of Method C would eliminate the incentive to blend high-dockage lots with clean lots.

9. Economic impact would be small.

Under average market conditions the economic impact of adopting Method B was estimated to total $13.3 million dollars. In contrast, adopting Method C would result in an impact of about $1 million. Market price quotations for clean wheat would increase and this would offset the weight reductions resulting from a higher level of certificated dockage.

10. Improve the competitive position of U.S. wheat in world markets.

The U.S. produces a wide range of wheat classes and is dependent upon high and stable exports to dispose of a sizeable share of annual production. Wheats offered by other exporters are substitutable for U.S. wheats in certain markets and certain uses. If a buyer judges price and important quality characteristics to be about equal, his decision may come down to one of cleanliness. Developing and maintaining a strong export market depends upon delivering a clean, high quality product along with a grade certificate that accurately describes the physical and biological condition of that product.

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THURSDAY, MARCH 18, 1986.

WORLD AGRICULTURAL OUTLOOK BOARD

WITNESSES

ROBERT L. THOMPSON, ASSISTANT SECRETARY FOR ECONOMICS

JAMES R. DONALD, CHAIRPERSON, WORLD AGRICULTURAL OUTLOOK BOARD

GERALD A. BANGE, DEPUTY CHAIRPERSON, WORLD AGRICULTURAL OUTLOOK BOARD

NORTON D. STROMMEN, CHIEF METEOROLOGIST, WORLD AGRICULTURAL OUTLOOK BOARD

RICHARD C. McARDLE, REMOTE SENSING COORDINATOR, WORLD AGRICULTURAL OUTLOOK BOARD

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. AKAKA. We now have the World Agricultural Outlook Board. You may begin.

Mr. DONALD. Thank you, Mr. Chairman. I will be brief. I would like to insert my complete statement in the record and briefly summarize it before discussing our budget request.

Mr. AKAKA. Certainly. We will include your entire statement in the record.

[CLERK'S NOTE: The full text of Mr. Donald's prepared statement appears on pages 110 through 114. The explanatory notes appear on pages 115 through 123.]

Mr. DONALD. Thank you, Mr. Chairman.

WORLD BOARD MISSION

The World Agricultural Outlook Board, Mr. Chairman, is the Department's focal point for economic intelligence. We span both the domestic and the international sides on economic intelligence. More specifically, our work is concentrated around two USDA functions. One of those functions is the commodity analyses and commodity estimates covering both the domestic and international supply-use estimates. The second function is the clearance and review of the publications of the Department that relate to agricultural outlook.

Since we are a very small agency, Mr. Chairman, we have to work with other agencies within the Department to achieve our commodity analysis function. For example, we work through Department Interagency Commodity Estimates Committees. Those are committees that generate the supply and demand forecasts both for publication and internal use within the Department.

There are two major activities which support this primary function. Specifically we coordinate the weather and climate activities within the Department and remote sensing. Mr. Chairman, these activities' primary function is in support of this system of global production estimates. This involves both the monitoring function, which we are doing within the Department, and the actual estimates function. Presently, for example, we are estimating Brazilian soybean production.

The second major function which I have mentioned is review and clearance of the publications issued by the Department relating to outlook of agriculture. Mr. Chairman, we are looking for consistency and quality of reports. All these publications associated with the World Agricultural Outlook Board, whether it is the Economic Research Service or Foreign Agricultural Service, are not published but only reviewed and cleared by the Board. We serve as a central point to achieve that mission.

BUDGET REQUEST

Our budget request for fiscal year 1987 is not much different from what this Committee approved in fiscal year 1986. We do want to make some redirections in the Boards spending. We want to devote additional resources to the weather and climate activities, particularly in examining some of the crop yield weather relationships for South America and the European community and perhaps to a lesser extent, in China.

Mr. Chairman, that concludes my brief comments. I would be happy to respond to any questions you might have. I do have some colleagues here.

PROGRAM FOCUS

Mr. **Akaka**. Thank you very much for your testimony.

I am interested in your remarks about your coördination of weather by remote sensor. Do you have a program of focusing—you mentioned Brazil and the soybeans—do you have a program focusing toward other areas of the globe?

Mr. **Donald**. Yes, we do, Mr. Chairman. There are a number of major countries, either importing or exporting producing countries that are covered on a regular basis. Our particular operation is not in the operational aspect but one which, for example, the Foreign Agricultural Service brings information based on the remotely sensed data to our lock-up meetings in making these estimates for the various countries.

AGRICULTURAL OUTLOOK

Mr. **Akaka**. A final question, in looking at the title of your Board, what is the "Outlook?"

[Laughter.]

Mr. **Donald**. Mr. Chairman, I came up last week with Mr. Thompson. As he indicated, the foundation for improvement in the outlook is there. There are some tools that he mentioned last week that can be utilized. Presently, we are going through a very difficult time, as we did in 1985. Exports are down. Production is up. We are going to add large quantities to stocks. If you forecast, it seems that we do have the conditions for an improvement in demand and exports. It is going to take time. We have additional stocks that we are going to accumulate. However, Mr. Chairman, I'm optimistic that over time demand will increase.

FOOD AID NEEDS ASSESSMENT

Mr. **Akaka**. I think of other parts of the world, parts that are suffering from starvation and knowing, as you pointed out, that we expect better production. I took it from you there may be less markets for export. Is there any discussion on how we can help these starving nations? Does that come under your purview?

Mr. **Donald**. No. That does not come under my particular purview. Mr. Thompson may want to comment on that. We are primarily dealing with the commercial aspects. Total production of food is certainly sufficient and in surplus. There is a problem in distribution, of some of the poor countries being able to buy commercially the food.

Mr. **Thompson**. The Economic Research Service, in its International Economics Division, annually conducts a food aid needs assessment that feeds into the whole U.S. Government effort for determining or programming food aid shipments to each individual country that receives it. That is Mr. Lee's Agency.

Mr. **Akaka**. Are there any further questions?

LANDSAT

Mr. **Whitten**. The budget proposes to eliminate funding made available for payment to other USDA agencies for the acquisition of LANDSAT sensing data. Will this same data now be provided to the Outlook Board free of charge?

Mr. **Donald**. Since fiscal year 1983 the World Agricultural Outlook Board has requested funding which was provided to other agencies for the purchase of LANDSAT data. The data are now being disseminated by a commercial firm and will not be provided to the Board or any other agency in the Department free of charge.

Mr. **Whitten**. Will the same level, quality, and quantity of data continue to be provided to the Outlook Board under this new arrangement?

Mr. **Donald**. The World Agricultural Outlook Board does not make direct use of LANDSAT data. The data will be purchased by other agencies in the Department for research and operational uses from a newly-designated commercial firm; we anticipate that the level, quality, and quantity of the data will be maintained.

OBJECT CLASSIFICATION TABLE

Mr. **Whitten**. In fiscal year 1985, your other services costs were $255,000. For 1987 you are requesting $181,000. What caused the large outlays in fiscal year 1985 in this account?

Mr. **Donald**. The most significant cause for the larger outlays in our other service costs was for the purchase of LANDSAT remote sensing data which the fiscal year 1987 budget proposes to eliminate.

Mr. WHITTEN. We also notice that for communications, utilities, and rent you are requesting $80,000 in 1987, compared with $59,000 in 1985. What is the difference in this account?

Mr. DONALD. The difference represents increases of $21,000 over a 2-year period in USDA and other federal telecommunications costs as well as for centralized departmental services in this account.

Mr. WHITTEN. For travel you are requesting $33,000 in 1987, compared to $20,000 in fiscal year 1985. Why would this account increase by more than 50 percent in two years?

Mr. DONALD. Actual travel costs in fiscal year 1985 were below our anticipated estimate due to a pending rescission that was restored too late in the fiscal year to accomplish previously planned travel. Our travel was curtailed to a level of meeting only the most critical program needs.

REMOTE SENSING SYMPOSIA

Mr. WHITTEN. According to the notes you will be receiving $5,000 each from SRS, the Forest Service, and ARS for Remote Sensing Symosia. What exactly is this item, and what service do you provide?

Mr. DONALD. In fulfilling its responsibility to coordinate remote sensing activities in the Department of Agriculture, the World Agricultural Outlook Board receives funding from other USDA agencies to provide the departmental contribution to the annual International Symposium on Remote Sensing of Environment which is organized and conducted by the Environmental Research Institute of Michigan, a non-profit organization. The USDA Remote Sensing Coordinator is assigned to the Board and serves on the Executive and Program Committees of the Symposium providing policy guidance and planning assistance. He reviews contributed papers submitted for presentation. In the next conference, the remote sensing coordinator will serve as Co-Chairman of a session on agricultural and food resources.

Mr. WHITTEN. Who participates in this, and what is its purpose?

Mr. DONALD. Individuals participating in the Symposium are those involved in remote sensing research, in operational programs which use remotely sensed data as a source of information, and in industries and commercial firms that supply instrumentation and services to remote sensing programs. In addition to the Environmental Research Institute of Michigan, organizations actively concerned with the Symposium, as sponsors and/or participants, include departments and agencies of the U.S. government and foreign governments, academic institutions, and commercial firms. The purpose of the Symposium is to disseminate and exchange information related to current features and future research activities, technological capabilities and remote sensing applications in earth resource and environmental monitoring.

TRANSFERS

Mr. WHITTEN. During fiscal year 1986 you will be transferring $6,000 to the Office of Governmental and Public Affairs. What exactly is the purpose of this transfer, and what reimbursable item will now be funded by a direct appropriation?

Mr. **Donald**. This proposed transfer will be made in fiscal year 1987. The explanatory notes show an adjustment in fiscal year 1986 for comparability purposes only. The purpose of this transfer related to Departmental policy for the Office of Governmental and Public Affairs to directly fund from its appropriation services it was performing on a reimbursable basis. The reimbursable item is TV production services to transmit agricultural program information to farmers and the general public.

JOINT AGRICULTURAL WEATHER FACILITY

Mr. **Whitten**. What is the annual budget for the Joint Agricultural Weather Facility, and what is your share and what is NOAA's share?

Mr. **Donald**. The annual budget for this facility in fiscal year 1987 is $721,000 comprised by $411,000 from the World Board and $310,000 from NOAA.

Mr. **Whitten**. How many employees does USDA have assigned to this function, and how many does NOAA have?

Mr. **Donald**. We have nine staff positions currently assigned to this facility on a full-time basis, in addition to seven staff-years provided by the National Oceanic and Atmospheric Administration.

Mr. **Whitten**. What is the distribution, in general terms, of these weather reports?

Mr. **Donald**. The Weekly Weather and Crop Bulletin is distributed on a user fee basis to subscribers such as farmers, private citizens, corporations, universities and libraries. Subscriptions of 2,000 are distributed to all 50 states and U.S. territories. Some subscribers also acquire the text via electronic mail which make the text available one to four days ahead of the printed copies delivered via U.S. Postal Service.

COMPUTER FACILITIES

Mr. **Whitten**. You state that, "Improved computer facilities and applications programs greatly enhance the Board's reporting and analytical capability." Would you elaborate in greater detail on what these improved computer facilities are as well as applications?

Mr. **Donald**. The Board has actively pursued and initiated numerous actions designed to assure that its automated data processing system represents state-of-the-art technology and is compatible with software and hardware in interfacing agencies. During the past year, the Board completed conversion of its ADP system from a minicomputer based system to an integrated network of personal computers. The replaced system had become technologically obsolete, inefficient, and highly vulnerable to failure during the lock-up. The redesigned system combines analytical and word processing functions and has significantly increased the capability of Board analysts to perform data manipulations without the assistance of computer specialists. At the same time, improved automation has increased the Board's operating efficiency by substantially increasing the productivity of the Board's clerical personnel. Of equal importance, the decentralized system has virtually eliminated the potential for system failure during lock-up.

REMOTE SENSING

Mr. WHITTEN. You refer to USDA's Remote Sensing Coordination Committee. Who are the members of this Committee?

Mr. DONALD. The Remote Sensing Coordination Committee includes members from all agencies in USDA that are concerned with remote sensing activities. The Chairperson of the World Agricultural Outlook Board serves as the Executive Secretary of the Committee. Day-to-day contact is encouraged among members and continuity is maintained by the Remote Sensing Coordinator assigned to the Board. The Committee meets in formal session once each month, with special meetings as required. In carrying out its function of communication, both formal and informal among USDA agencies, the Remote Sensing Coordination Committee might be likened to an information clearinghouse. In addition to personal contact, a flow of relevant publications, reports, and other information among committee members is maintained between meetings.

Mr. WHITTEN. What function does this Committee serve?

Mr. DONALD. The functions of the USDA Remote Sensing Coordination Committee are four-fold. First to establish and maintain communication among agencies concerned with remote sensing; second, to identify and coordinate Department remote sensing data needs and develop programs to enable the Department to make efficient use of remotely sensed data; third, to advise the Assistant Secretary for Economics and the Chairperson of the World Agricultural Outlook Board on the Department's remote sensing policy; and fourth to ensure that remote sensing activities are coordinated with the work of the USDA Weather and Climate Program Coordinating Committee.

Mr. WHITTEN. What other remote sensing committees exist that you participate in ?

Mr. DONALD. Representatives of the Department participate in both formal and informal interagency remote sensing committees. For the most part, the committees are ad hoc, not permanent, and serve to bring together remote sensing specialists from many agencies and departments to deal with matters which cut across organizational lines of responsibility. The meetings function as a clearinghouse for information, for informal coordination, and for preparation of reports and studies. Examples of ad hoc interagency committees in which representatives of the Department of Agriculture have participated include report preparation committees for the ENVIROSAT-2000 Report issued by the Department of Commerce and the report on remote sensing required by Public Law 98-365, "Land Remote-Sensing Commercialization Act of 1984." Another ad hoc interagency committee brings agency representatives together to discuss matters of common concern related to commercial satellite data acquisition. At the policy level, the Department of Agriculture actively participated in the Interagency Board on Civil Operational Earth-Observing Satellite Systems—IB-COESS. The IB-COESS now disbanded was established by the Secretary of Commerce to provide guidance on commercialization of the U.S. civil land-observing satellite program, and was most recently used as the initial forum for organizing ad hoc committees for the ENVIROSAT-2000 and Public Law 98-365 reports.

FUTURES MARKET

Mr. WHITTEN. You mention that you maintain a formal liaison with the Commodity Futures Trading Commission in order to ensure that the futures market best serves the interest of farmers and consumers. What efforts have been made to ensure that the futures market serves the best interests of farmers and consumers?

Mr. DONALD. Accurate, timely, and unbiased information is essential if the futures market is to serve the best interests of both producers and consumers. With this objective in mind the World Agricultural Outlook Board provides information to the Commission on commodity price movements, current and potential, with an assessment, when requested, of underlying causes.

AGRICULTURAL OUTLOOK CONFERENCE

Mr. WHITTEN. How many people participated in the 62nd Annual Outlook Conference?

Mr. DONALD. There were 923 participants.

Mr. WHITTEN. What was the total cost of the Outlook Conference?

Mr. DONALD. The total cost was $86,000.

Mr. WHITTEN. Who pays for the cost of the Outlook Conference?

Mr. DONALD. The World Board, Economic Research Service, Extension Service and Foreign Agricultural Service share the costs of the Outlook Conference on an agreed upon percentage basis.

CONSULTANTS

Mr. WHITTEN. Have you employed any consultants during the past year? If so, for what purpose? What was the cost of these consultants?

Mr. DONALD. We have not employed any experts or consultants in the past year. The authority to employ consultants was deleted from our appropriation language in fiscal year 1986 at our request. Our in-house professional staff resources provide sufficient technical and analytical expertise to enable us to sustain program operations and effectively meet our major responsibilities.

LOCK-UP ROOM

Mr. WHITTEN. Several years ago we provided money for the remodeling of the crop lock-up room. Has the remodeling of this facility been adequate?

Mr. DONALD. The remodeling of the lock-up facility which was done in conjunction with colocating with the Statistical Reporting Service has adequately served the needs of the Board.

Mr. WHITTEN. Are any modifications under consideration for the lock-up facilities that are not requested in this budget?

Mr. **Donald**. No funds for modifying the facility have been requested in our fiscal year 1987 budget and no major modifications are planned in the near future.

REPORTS

Mr. **Whitten**. Would you please provide for the record a listing of all the reports issued by your agency, the number of copies of each, and the cost of each?

Mr. **Donald**. The only report directly issued by the World Board is the World Agricultural Supply and Demand Estimates. The World Board prints 950 copies, of which 500 are distributed free, 400 are distributed to subscribers on a user fee basis and 50 are used by World Board. This report is distributed to a wide variety of agribusiness and commodity concerns, farmers, the academic community, the Executive and Legislative branches of Government, and the news media. The current annual cost to produce the World Agricultural Supply and Demand Estimates is $10,000, comprised of $4,000 for postage fees, $1,000 for contractual mailing services, and $5,000 for printing.

Mr. **Whitten**. Mrs. Smith.

SPACE AND GROUND SENSORS

Mrs. **Smith**. You mentioned space sensors and ground-based sensors which communicate through space relay systems that have the potential to improve the accuracy and timeliness of earth resources data and crop condition information now collected on the ground. Can you describe the potential this has for American, as well as world agriculture?

Mr. **Donald**. Remotely sensed data from space-based sensors, such as those carried by the LANDSAT satellite, and from ground-based sensors, constitute a source of information for decisionmakers in agriculture and renewable resources that is at present a useful and potentially a most valuable adjunct source of information. In certain specific situations, remotely sensed data can be considered a unique source of information. For American agricultural decisionmakers such as farm operators, agribusiness owners, and program policymakers, the remotely sensed data largely supplement existing information systems. Accuracy of information from other sources is enhanced with the result that decisions are improved, leading to greater efficiencies in marketing of crops and allocation of resources. In other countries of the world, particularly in the developing countries, the agricultural information systems are still in a formative stage. Remotely sensed data can provide the basic information for mapping and inventories—the first step in rational planning. Somewhat more advanced is the use of remotely sensed data at the national level to assess local and regional agricultural conditions, thus overcoming the difficulties caused by slow, faulty, or non-existent internal information systems.

WORLD AGRICULTURE OUTLOOK

Mrs. **Smith**. Do you have any comments on the Farm Bill's anticipated effect on world agriculture in the next five years?

Mr. DONALD. The new farm bill will significantly affect world agriculture beginning in 1986/87 marketing year. The reduction in loan rates will work over time to limit production increases abroad. That is, lower commodity loan rates in the United States and the resulting lower world prices, should cause our competitors to share some of the supply adjustment necessary to bring world production in line with world demand. This also should permit the United States to begin to recapture its export market share.

Mr. WHITTEN. I want to thank you very much for your testimony.

[The prepared statement follows:]

WORLD AGRICULTURAL OUTLOOK BOARD

Statement of James R. Donald, Chairperson, before the Senate Subcommittee on Agriculture, Rural Development and Related Agencies.

Mr. Chairman and Members of the Committee, it is my pleasure to appear before you today to discuss the fiscal year 1987 budget request of the World Agricultural Outlook Board.

Overview

The World Agricultural Outlook Board (WAOB) plays a critical role in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system responds to today's rapidly changing world agricultural sectors. The purpose of the WAOB is twofold: to provide the most accurate, objective, and timely economic intelligence on worldwide developments which influence U.S. agriculture; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB maintains liaison with international organizations, such as the United Nations' Food and Agriculture Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessment; these monitoring activities within USDA are coordinated by the WAOB Chairperson. Remote sensing activities in USDA also are coordinated by the WAOB Chairperson. Space sensors and ground-based sensors which comunicate through space relay systems have the potential to improve the accuracy and timeliness of earth resources data and crop condition information now collected on the ground.

Specific Functions and Progress

WAOB has continued to improve its ability to integrate information from the Department's world agricultural intelligence system. WAOB chairs the Interagency Commodity Estimates Committees (ICEC's) and seeks to expand each ICEC's analytical role in current condition and impact assessment. These committees include representatives of the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization, and prices for the major agricultural commodities. It is through the interagency membership of these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance has become an ongoing responsibility of each committee.

Weather, as much as any economic or policy development, continues to be a significant and most unpredictable variable underlying agricultural production and prices. Consequently, USDA places a high priority on incorporating weather-based impact assessment information into all analyses. The focal point is the Joint Agricultural Weather Facility (JAWF), operated jointly by the Board and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, hourly monitors and assesses global weather events and their probable impact on agricultural output. JAWF analyses are a key ingredient in much ICEC work.

Key agricultural areas in every major producing country, including the United States, are identified by JAWF, and meteorological data from relevant weather stations around the world are analyzed daily relative to the stage of crop development. High-speed computer systems are used to process, analyze, and disseminate information for public distribution, primarily through the Weekly Weather and Crop Bulletin which is published by JAWF/NOAA.

In addition to regular briefings and reports, JAWF provides special alerts when critical weather events may affect U.S. or world agriculture. This early warning capability diminishes the likelihood that farmers and other participants in the agricultural system would be caught off guard by a foreign crop failure or some other significant global weather-related event. This system was of crucial importance in the past year to policymakers in USDA, other members of the Administration, and the Congress, with assessments including the impact of good weather on Soviet grain production, the effects of the Florida freezes on citrus production and severe drought's role in reducing Brazilian soybean production.

WAOB continued a program started in 1979 to improve the quality and timeliness of USDA's outlook forecasts. The World Agricultural Supply and Demand Estimates report (WASDE), the only report published by WAOB, was improved significantly last year when major elements of the World Crop Production report were incorporated into it. The WASDE is now the only monthly global lockup report, and it is released on the same day as U.S. crop reports. The Foreign Agricultural Service still publishes a world production report as an expansion of data included in the supply and demand publication. However, by integrating major facets of both reports and releasing the world data concurrently with domestic reports, WAOB responded to the preference of users to receive maximum commodity information on a timely basis while minimizing potential repeated market reactions caused by frequent release of sensitive information throughout the month.

Recent Activities

The Crop Reporting Board of the Statistical Reporting Service and the WAOB continued co-location in a single lockup facility to maximize security conditions for compilation and analyses of world crop data and supply/demand estimates. This physical arrangement with the Crop Reporting Board facilitates interaction between domestic and international assessment activities and eliminates the movement of highly sensitive data between two separate lockup areas.

While striving to enhance analytical capability, WAOB recognizes that the demand for rapid information dissemination will continue to expand. Increasingly, improved technologies are being used to speed the flow of information. The principal objective is to place the World Agricultural Supply and Demand Estimates report into the hands of farmers and other users as quickly and effectively as possible. WASDE is now transmitted electronically upon release at 3 p.m. to a central USDA system that can forward it to all interested users, greatly broadening the potential for report dissemination. Also, the report summary is now being sent electronically to our embassies and trade offices around the world to keep U.S. agricultural attaches, counselors, and trade representatives current with the very latest information on U.S. supplies and prices.

As part of its effort in information dissemination, WAOB again directed USDA's annual Agricultural Outlook Conference, the 62nd in USDA history. About 800 representatives of government, agribusiness, academia, and the press attended the December conference, which afforded major emphasis on the agricultural outlook for 1986 and the implications of new farm legislation. Many aspects of the conference were streamlined to make it more economical to produce and to attend.

Budget Request

Our total budget request for fiscal year 1987 is $1,680,000. This represents a net increase of $17,000 above the fiscal year 1986 adjusted level of $1,663,000. The net increase consists of $67,000 to fund an intensification of global meteorological data monitoring and analysis, of which resources in our base appropriation of $50,000 would be made available by reprogramming LANDSAT funds. In redirecting the use of these funds, we are proposing a decrease of $50,000 in LANDSAT funding which had been made available to other USDA user agencies for acquiring remote sensing data.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning the WAOB programs and budget request.

WORLD AGRICULTURAL OUTLOOK BOARD

Purpose Statement

The World Agricultural Outlook Board (WAOB) was created by the Secretary of Agriculture on June 3, 1977, under the authority of the Reorganization Plan No. 2 of 1953. The WAOB serves as the single focal point for the Nation's economic intelligence related to domestic and international food and agriculture, and is responsible for coordination and clearance review of all commodity and aggregate agricultural and food-related data used to develop outlook and situation material within the Department of Agriculture. The WAOB's primary objective is to improve the consistency, objectivity and reliability of outlook and situation material developed in the Department.

WAOB functions include information dissemination; market surveillance; coordination of assessments of international and domestic agricultural developments; and coordination of weather, climate and remote sensing research and forecasting techniques.

The WAOB is located in Washington, D.C. As of September 30, 1985, there were 24 full-time and 4 part-time employees. Budget, personnel, administrative and general managerial support are provided by the Economics Management Staff.

WORLD AGRICULTURAL OUTLOOK BOARD

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
World Agricultural Outlook Board	$1,669,000	29	$1,663,000	30	$1,680,000	30
Obligations under other USDA appropriations:						
Economic Research Service for annual Outlook Conference	18,300	--	21,000	--	21,900	--
Extension Service for annual Outlook Conference	12,200	--	14,000	--	14,600	--
Foreign Agricultural Service for annual Outlook Conference	6,100	--	7,000	--	7,300	--
Statistical Reporting Service for Remote Sensing Symposia	5,000	--	5,000	--	5,000	--
Forest Service for Remote Sensing Symposia	5,000	--	5,000	--	5,000	--
Agricultural Research Service for Remote Sensing Symposia	--	--	5,000	--	5,000	--
Miscellaneous reimbursements	517	--	1,000	--	1,200	--
Total, Other USDA Appropriations	47,117	--	58,000	--	60,000	--
Total, Agriculture Appropriations	1,716,117	29	1,721,000	30	1,740,000	30
Total, World Agricultural Outlook Board	1,716,117	29	1,721,000	30	1,740,000	30

Full-Time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	29	30	30
Non-ceiling	--	--	--
Total	29	30	30

WORLD AGRICULTURAL OUTLOOK BOARD

Permanent Positions by Grade and Staff-Year Summary

1985 and Estimated 1986 and 1987

Grade	1985 Headquarters	1986 Headquarters	1987 Headquarters
ES-4	1	1	1
ES-2	- -	1	1
ES-1	1	- -	- -
GS/GM-15	6	6	6
GS/GM-14	3	5	5
GS/GM-13	3	2	4
GS-12	6	6	6
GS-11	1	1	1
GS-9	4	3	1
GS-8	- -	1	1
GS-7	2	1	2
GS-6	- -	2	1
GS-5	1	- -	- -
GS-4	- -	1	1
GS-3	1	- -	- -
Total Permanent Positions	29	30	30
Staff-Years:			
Ceiling	29	30	30
Non-Ceiling	- -	- -	- -
TOTAL	29	30	30

WORLD AGRICULTURAL OUTLOOK BOARD

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

	1985	1986	1987
Personnel Compensation:			
Headquarters...............	$1,088,508	$1,131,000	$1,145,000
Field......................	- -	- -	- -
11 Total personnel compensation.......	1,088,508	1,131,000	1,145,000
12 Personnel Benefits...	117,415	123,000	124,000
13 Benefits for former personnel..........	93	- -	- -
Total Pers. Comp. & Benefits...............	1,206,016	1,254,000	1,269,000
Other Objects:			
21 Travel...............	20,473	30,000	33,000
22 Transportation of things............	87	- -	- -
23.2 Communications, utilities and other rent.........	59,422	68,000	80,000
24 Printing and reproduction.......	18,625	21,000	22,000
25 Other services.......	255,621	196,000	181,000
26 Supplies and materials..........	30,575	26,000	27,000
31 Equipment...........	51,664	68,000	68,000
43 Interest and dividends..........	263	- -	- -
Total other objects......	436,730	409,000	411,000
Total direct obligations...	1,642,746	1,663,000	1,680,000
Position Data:			
Average Salary, ES positions............	$64,782	$66,232	$66,232
Average Salary, GS positions............	37,255	38,231	39,636
Average Grade, GS positions............	11.56	11.68	12.00

WORLD AGRICULTURAL OUTLOOK BOARD

The estimates include appropriation language for this item as follows:

World Agricultural Outlook Board:

> For necessary expenses of the World Agricultural Outlook Board to coordinate and review all commodity and aggregate agricultural and food data used to develop outlook and situation material within the Department of Agriculture, as authorized by the Agricultural Marketing Act of 1946 (7 U.S.C. 1622g), $1,680,000; Provided, That this appropriation shall be made available for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225).

WORLD AGRICULTURAL OUTLOOK BOARD

Appropriations Act, 1986		$1,680,000
Budget Estimate, 1987		1,680,000
Change in Appropriation		- -
Adjustments in 1986:		
Appropriations Act, 1986	$1,680,000	
Less Pro-Rata Reduction, P.L. 99-190	-10,000	
Net Appropriations	1,670,000	
Transfer to Departmental Administration and Office of Governmental and Public Affairs for Reimbursable Activities a/	-7,000	
Adjusted base for 1986		1,663,000
Budget Estimate, 1987		1,680,000
Increase over adjusted 1986		+17,000

a/ A transfer of $1,000 to Departmental Administration and $6,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Items of Change	1986 Estimated	Program Changes	1987 Estimated
Global Weather Monitoring and Analysis	- -	+$67,000	$67,000
LANDSAT	$50,000	-50,000	- -
All Other	1,613,000	- -	1,613,000
Total Available...............	1,663,000	+17,000	1,680,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual		1986 Estimated			1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Increase	Amount	Staff-Years
1. Commodity and Aggregate Agricultural and Food Outlook and Situation...	$1,642,746	29	$1,663,000	30	+$17,000(1)	$1,680,000	30
Unobligated balance.........	26,254	- -	- -	- -	- -	- -	- -
Total, available or estimate ...	1,669,000	29	1,663,000	30	+17,000	1,680,000	30
Transfer to Departmental Administration and Office of Governmental and Public Affairs	+7,000	- -	+7,000				
Total, appropriation..	1,676,000	29	1,670,000				

EXPLANATION OF PROGRAM

The World Agricultural Outlook Board (WAOB) coordinates and reviews for clearance all commodity and aggregate agricultural and food-related data used to develop outlook and situation material within the U.S. Department of Agriculture. The WAOB provides a focal point for the Nation's economic intelligence relative to domestic and international food and agriculture, with two primary objectives: improving the consistency, objectivity, and reliability of outlook and situation material being disseminated to the public; and integrating and coordinating USDA domestic and international economic information assistance. In a cooperative effort with the National Oceanic and Atmospheric Administration, the WAOB operates the Joint Agricultural Weather Facility which provides a daily review of significant weather developments around the world and their implications for agriculture. The WAOB's functions include market surveillance; coordination of assessments of international and domestic agricultural developments; weather, climate and remote sensing coordination; and forecasting techniques and information dissemination.

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net increase of $17,000 as follows:

(a) An increase of $67,000 for global weather monitoring and analysis.

Need for Change. Funding is needed to enable the Board/Joint Agricultural Weather Facility to improve country coverage consistent with its mandate to provide global agricultural weather monitoring and analysis. Meteorological data is needed to fill voids in data provided by the World Meteorological Organization.

Nature of Change. This support would expedite meteorological data management and product development for agricultural assessments. More comprehensive coverage would be provided concerning developments in markets which are crucial to U.S. agricultural trade.

(b) A decrease of $50,000 for acquisition of LANDSAT remote sensing data.

Need for Change. The budget request proposes to eliminate funding made available to other USDA agencies for the acquisition of LANDSAT remote sensing data in fiscal year 1987.

Nature of Change. Other USDA agencies will use their own funds to acquire LANDSAT remote sensing data for future use in conducting various studies on worldwide crop conditions.

WORLD AGRICULTURAL OUTLOOK BOARD

STATUS OF PROGRAM

The World Agricultural Outlook Board (WAOB) coordinates and reviews for clearance all commodity and aggregate agricultural and food-related data used to develop outlook and situation material within the Department of Agriculture. Prior to the creation of WAOB on June 3, 1977, agricultural outlook and situation data was collected, analyzed and reported by several agencies in USDA. The Board's role is to coordinate and assure the accuracy, timeliness, and objectivity of USDA's agricultural outlook and situation analysis. The Board not only directs the compilation and review of critical economic intelligence data, it also makes sure the essential information quickly reaches policymakers and the public, especially the U.S. farmer.

Current Activities: WAOB functions include information dissemination; market and agricultural weather surveillance; coordination of USDA forecasts of international and domestic agricultural developments; and coordination of weather, climate and remote sensing research activities.

The WAOB helps USDA meet its responsibilities to farmers and consumers by more completely recognizing, interpreting and analyzing the increasing interdependence between world and U.S. agriculture and the sensitivity of commodity markets to changes in world supply-demand estimates.

Selected Examples of Recent Progress: As a part of USDA's ongoing effort to integrate national and international commodity and analytical systems, the WAOB continued to publish the World Agricultural Supply and Demand Estimates, which provides projections of world and U.S. supply and utilization data for grains, oilseeds and cotton; and U.S. estimates for red meat, poultry, eggs and dairy. In 1985, supply and use information for major importing and competing countries was developed and published for the first time. It provides greater insight into global changes in exports, imports, and ending stocks. This publication is released simultaneously with the U.S. Crop Production report, produced by the Statistical Reporting Service.

Improved computer facilities and applications programs greatly enhanced the Board's reporting and analytical capability. This made possible special briefings and quick analyses of global weather and economic developments.

The Joint Agricultural Weather Facility, operated by the WAOB and the National Oceanic and Atmospheric Administration, published the Weekly Weather and Crop Bulletin. The facility continued to monitor and interpret significant global weather developments and their implications for agriculture. It also improved analytical techniques to yield more quantitative information on the impact of weather on agricultural production. These techniques utilize computer resources to manage the flow of current and historical data to provide pertinent agri-climatic data.

As focal point for Government-wide efforts in interpreting the effect on agriculture of actual or potential weather developments, the WAOB continued to advance the Department's activities in weather data applications and monitoring. Special briefings highlighted the impact of 1985 weather events in world producing regions. In coordinating remote sensing activities, the WAOB extended its function as an information clearinghouse, relying heavily on continuing contacts with members of USDA's Remote Sensing Coordination Committee. The WAOB was liaison and the Departmental representative to interagency remote sensing committees.

With responsibility for chairing all interagency commodity estimates committees, the WAOB continued to further advance and focus USDA's operation of a coordinated information system across the Department, Government and industry, both domestically and worldwide. The committees coordinate and clear for USDA release, domestic and international commodity situation and outlook reports, aggregate appraisals for agriculture and food, and related data used to develop outlook and situation material.

The WAOB further expanded electronic dissemination of information contained in the World Agricultural Supply and Demand Estimates in order to disseminate timely outlook information to users.

The WAOB chaired and actively participated in the 62nd annual Agricultural Outlook Conference held December 3-5, 1985, in Washington, D.C. The Conference was streamlined for greater focus and economy. The WAOB also developed and staffed a major panel on commodities for the USDA Secretary's Annual Farm Women's Forum, and provided support to a USDA conference for journalists.

Through policy and technical contacts, a formal liaison was maintained between the Department and the Commodity Futures Trading Commission to ensure that the futures market best serves the interest of farmers and consumers.

The WAOB represented the Secretary of Agriculture and the Department many times in fulfilling the need for more effective communication of the impact of U.S. and world agricultural developments.

MONDAY, MARCH 10, 1986.

FOOD SAFETY AND INSPECTION SERVICE

WITNESSES

ALAN TRACY, ACTING ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

DONALD L. HOUSTON, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

LESTER CRAWFORD, ASSOCIATE ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

JOSEPH A. POWERS, DEPUTY ADMINISTRATOR, ADMINISTRATIVE MANAGEMENT, FOOD SAFETY AND INSPECTION SERVICE

WILLIAM L. WEST, DIRECTOR, BUDGET AND FINANCE DIVISION, FOOD SAFETY AND INSPECTION SERVICE

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. The committee will come to order.

We begin today the hearings on the 1987 budget request for the Department of Agriculture. The department was created during Abraham Lincoln's service as President, as I recall it. It has had a long and successful career, successful history.

It is said that any nation's standard of living is tied to how much time its people have to spend in producing their basic food, clothing and shelter. Judged by that standard, no country in the history of the world has done as well as the United States.

In the process we have reached the point where less than two and a half percent of our people are on the farm. The percentage of our people that are required to produce food, clothing, and shelter for the rest of us has become so low that, in the political world in which we live, they have lost their power to persuade the Congress or the Executive Branch to look after their basic well-being as in the past.

Those engaged in agriculture at the present time have had their products held off world markets because our Government wouldn't make the price right. Since 1980 the record shows that we have refused to use the Commodity Credit Corporation or private corporations to move into world trade competitively what we have and didn't need.

The record also shows that in about 125 countries we sell them guns, ammunition, airplanes and other weapons of war. Yet, what the people need is food, clothing and shelter.

As the record will show, over the years the Office of Budget and Management has repeatedly asked for user fees, where those who get the benefit pay something for it. Most of the time, however, you have been unable to get any Member of Congress to introduce a bill authorizing such fees. You haven't been able to do so again this year, at least before you came here today.

I want to put in the record the cuts in your programs that are requested by the Office of Budget and Management and the Department of Agriculture. They are unbelievable, since in the same budget the cuts in domestic programs are not applied to the deficit or the debt, but are used to offset the increase in carryover funds for military spending from $244 billion at the end of this year to $299 billion next year.

I have supported defense longer than anybody in Congress. I consider myself a strong believer in a strong defense. But you can't measure that by how much money Congress provides and the way it is spent.

Now, I ask you to go into this. You propose to reduce appropriations by this $365 million by substituting user fees. What will you do in the event the Congress doesn't authorize that? History shows they are not likely to, so I would like to have you tell us, in case you don't get the legislation, what you will do.

You might proceed, Mr. Tracy.

Mr. TRACY. Mr. Chairman, I have had the privilege of appearing before you a number of times, starting out five years ago in the job you created when I was the General Sales Manager.

Mr. WHITTEN. We are glad to have you. I think we all have a tougher job this time.

Mr. TRACY. This is the first of our seven agencies that will be in my area that you will be reviewing. I would like to introduce Steve Dewhurst, no stranger to you, our Department Budget Officer, and turn it over to Dr. Houston, Administrator of the Food Safety and Inspection Service.

Mr. WHITTEN. We will be glad to hear from him.

[The biographical sketch of Dr. Crawford follows:]

BIOGRAPHY—LESTER M. CRAWFORD, ASSOCIATE ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Dr. Lester M. Crawford was born in 1938 in Demopolis, Alabama. After a boyhood on a dairy farm in Western Alabama, he went to Auburn University where he earned the Doctor of Veterinary Medicine degree in 1963. In 1969 he was awarded the PhD in pharmacology from the University of Georgia.

Dr. Crawford practiced veterinary medicine in Meridian, Mississippi and Birmingham, Alabama prior to joining the Animal Industry Research and Development Division of American Cyanamid Company in 1964. Fourteen years of Dr. Crawford's professional career were spent at the University of Georgia where he variously served as Instructor of Pharmacology, Assistant Professor, Associate Professor, Assistant Dean, Associate Dean, and Head of the Department of Physiology-Pharmacology. Prior to his appointment as Associate Administrator of Food Safety and Inspection Service, he was the Director of the Bureau of Veterinary Medicine at the Food and Drug Administration, a position he also held from 1978–80. Previously, Dr. Crawford was staff Pharmacologist in the Division of Veterinary Research (1975–76).

Dr. Crawford has approximately 60 scientific publications and 2 books to his credit. His special interests include antibiotic toxicology, chemical contamination of food, and biomedical ethics. He holds membership in 27 honorary, professional, and scientific societies. Among his awards and honors are the A.M. Mills Award (1979), the K.F. Meyer award (1980), and FDA's highest honor, the Award of Merit (1963). In 1984 he was inducted into the French Academy of Veterinary Medicine.

Dr. Crawford is married to the former Catherine Walker of Birmingham, Alabama, and has two teen-aged daughters, Leigh and Mary. His hobbies include racquet-ball and tennis.

STATEMENT OF THE ADMINISTRATOR

Dr. HOUSTON. I would like to introduce on my right, Dr. Lester Crawford, Associate Administrator, Food Safety and Inspection Service of our agency; Mr. Joseph Powers, who is Deputy Administrator for Administrative Management. To his right Mr. Bill West, who is Director of our Budget Division. As suggested, Mr. Chairman, we will put off for a few minutes talking about user fees and go to where we plan to use our money in fiscal year 1987. We are going to be covering some of the efforts we are making to modernize our inspection program, relieve current budgetary pressures and otherwise tell you how we serve the public.

As you know, our mission is performed in more than 7,000 meat and poultry plants across the country, in every state and territory. That is where most of our employees are; that is where most of our dollars go. While the men and women in our inspection force usually receive no public notice they are the regulatory system at work.

But the inspectors do not stand alone. When they take their stations each day on the slaughter and processing lines they are backed up by headquarters, laboratory, and other field staffs whose activities are also essential to the Agency's overall mission of protecting the public.

They detect the presence of residues and other adulterants in the meat and poultry supply. Last year 248,000 samples were tested. They oversee product recalls and other actions to prevent contaminated product from reaching consumers and to minimize losses to the industry. They investigate any illegal activities in the plants and enforce inspection laws throughout food distribution channels. They review product labels for accuracy. They educate consumers on the safe handling of meat and poultry.

BUDGET REDUCTIONS

We in the Food Safety and Inspection Service are proud of our role in helping make the nation's food supply the safest in the world. But this year's budget cuts have severely strained our resources so that extraordinary effort will be required if we are to continue to provide industry with needed services and consumers with a safe and wholesome meat and poultry supply.

To put the fiscal year budget in perspective, it is necessary to look at our current situation and what it means in terms of people and services. In fiscal year 1985, our appropriation was $364.6 million. For fiscal year 1986, our appropriation level was slightly below that, at $361.8 million after a transfer of $.3 million to departmental management. Gramm-Rudman-Hollings will result in a further reduction of $15.6 million. However, through action detailed below, the Food Safety and Inspection Service has been able to realize $6.5 million additional savings. Also, on March 4, the President approved the release of $5.7 million in funds already appropriated for Food Safety and Inspection Service but held in abeyance by Congress pending a formal request from the Administration.

We are doing every thing possible to absorb this reduction in a way that will least disrupt the industry and least harm our employees.

We have already taken a number of steps to curtail our spending:

First, we have severely restricted travel, training and laboratory contracts.

Second, we are continuing the full hiring freeze that began in November. At the start of the fiscal year we had 9,230 full time employees, including an in plant inspection force of 7,541. We expect that by October we will be down to 8,630 full time employees, with an in plant force of 7,020.

At the start of the fiscal year we also had nearly 1,100 temporary and part time employees, but we are now drastically curtailing their use, mainly through a new streamlined inspection system that reduces by more than 400 the number of poultry inspection positions.

But these measures, stringent as they are, are simply not enough. They will account for only $6.5 million of the $15.6 million reduction mandated for this year by Gramm-Rudman-Hollings. Even with the recently released $5.7 million, we must cut our spending by an additional $3.4 million. The Food Safety and Inspection Service is a very labor intensive agency, with about 85 percent of the budget going for salaries and benefits.

Therefore, while we would prefer to do otherwise, we are proposing a three day furlough for the entire agency. To avoid disrupting Food Safety and Inspection Service work schedules and industry production, we intend to use the three remaining Federal holidays in the fiscal year as the furlough days.

With that analysis of where we stand this year, let me turn now to fiscal year 1987. Our current law budget request for next year is $365.8 million, or slightly more than this year's level before the Gramm-Rudman cut. The fiscal year 1987 request allots $210.6 million for slaughter inspection, $89.8 million for processing inspection, $7.8 million for import-export inspection, $21.2 million for laboratory services, and $36.4 million for grants to states.

STREAMLINED INSPECTION SYSTEM

In keeping the fiscal year 1987 budget as lean as possible, we must continue to streamline and modernize our inspection system. Urging us on is a report from the National Academy of Sciences that we commissioned as part of our five point plan to strengthen meat and poultry inspection. We wanted an outside body of scientists to take a long, hard, impartial look at our program, and that is exactly what the academy did.

Its report, delivered last July, endorsed the direction we have taken but pulled no punches in calling for us to go still further. The Academy's recommendations will serve as a blueprint as we proceed with our efforts to streamline and modernize our program.

Supplying still more motivation or change is the industry expansion I referred to earlier. This is particularly true in the poultry industry, where increased consumer demand is prompting plants to add lines and shifts and request additional inspection.

ENFORCEMENT

Mr. Chairman, turning to enforcement for a few minutes, the Food Safety and Inspection Service employs the tool known as Intensified Regulatory Enforcement (IRE) to deal with plants that consistently cannot or will not follow procedures assuring safe and wholesome meat and poultry products. When a plant is assigned IRE status, the agency develops a specific action plan to bring about improvement.

The program was begun three years ago. Since then, 11 plants have upgraded their operations to a satisfactory level. At the end of 1985, 13 plants were operating under IRE.

In cases where plant officials have been convicted in criminal proceedings, the Food Safety and Inspection Service can also withdraw inspection services. During fiscal year 1985, the agency took this administrative action against several slaughtering and processing companies, including one in Pennsylvania that sold uninspected meat for human consumption and one in Ohio that refused to destroy adulterated product a USDA inspector had condemned.

We also initiated 1,200 detention actions involving nine million pounds of suspect meat and poultry products and monitored 13 recalls for nearly 700,000 pounds. Another 90,700 pounds were seized in five court actions initiated by the agency.

LEGISLATIVE PROPOSAL

However, many of the enforcement actions we can take are possible only through a laborious process that often is less than effective in dealing with the more difficult cases. We have long recognized the need for additional enforcement authority. A two part legislative proposal submitted to Congress last August would increase the Department's authority to withdraw or refuse inspection.

Denying inspection and thus preventing a plant from operating is the most effective sanction we can impose. We must have more authority to use that sanction to protect the public and to assure that no plant is permitted to gain competitive advantage through prohibited practices.

The second part of our legislative proposal would amend the inspection laws to permit varying the intensity of inspection in certain processing plants. It is a change we have sought for several years in response to major advances in processing technology and the need to increase efficiency in the inspection program.

Now, given our challenging budget situation, it is even more essential that we be able to decide how often and how closely each processing plant should be inspected based on its compliance history and other factors. We believe it is neither necessary nor practical for every such operation to be visited every day by a USDA inspector. We must have the flexibility to allocate our dwindling resources more efficiently and more economically than the laws in their present form permit.

Our legislative package combines into one bill the two similar and complementing proposals that were introduced but not acted on in the last Congress. If enacted, it is expected to yield cumulative savings of $63 million over the next five years. We will actively continue to seek introduction and passage of the bill.

[CLERK'S NOTE: The full text of Dr. Houston's prepared statement appears on pages 164 through 180. The explanatory notes appear on pages 181 through 200.]

Dr. HOUSTON. Mr. Chairman, I could continue at this point, and turn to the subject of user fees and give you some idea of how the department would——

Mr. WHITTEN. User fees would require legislation. This is not the committee that writes such legislation.

Have you appeared before the Legislative Committee to ask for the authority to do so?

USER FEES

Dr. HOUSTON. No sir, we have not.

Mr. WHITTEN. Don't you think it would be well to go before them and ask them to change the law before asking us to change the funding arrangements?

Dr. HOUSTON. We are in the process of having legislation——

Mr. WHITTEN. In the process. That is a broad term.

Dr. HOUSTON. We do have a legislative proposal that will certainly be——

Mr. WHITTEN. Do you want to keep from coming before Appropriations? If no appropriation is required would you sever your association with us?

Dr. HOUSTON. No, I think there would be revenue and expenditure reports to OMB.

Mr. WHITTEN. Do you think we should recess so you can go before the Legislative Committee and ask for the user fee legislation?

Dr. HOUSTON. I would hope not.

Mr. WHITTEN. Would that be the proper process?

Dr. HOUSTON. I am not sure of the actual procedure but I think under these circumstances we are trying to explain the fiscal year 1987 budget.

Mr. WHITTEN. It seems to me that you don't believe in abolishing the Department of Agriculture any more than we do. Let the record show the witness remained silent.

Thank you for your presentation.

USER FEE PROPOSAL

Mr. WHITTEN. Last year you proposed a three-year phase-in of an across-the-board user fee to recover the full cost of agency operations by fiscal year 1988. Congress obviously disagreed with that proposal. This year you propose an immediate across-the-board user fee to fully fund the agency. What makes your proposal more likely to happen this year?

Dr. HOUSTON. In response to the urgent need to bring budgetary deficits under control, Congress passed the Gramm-Rudman-Hollings provisions. In accordance with the statutory requirements, the Administration has submitted a fiscal year 1987 budget within the deficit reducing guidelines of this law. A part of that budget is the proposal for user fees for FSIS and other Agencies where appropriate.

Mr. WHITTEN. How much money do you propose to collect through user fees?

Dr. HOUSTON. All the funds needed to operate the program will be collected from the inspected establishments. Currently, overtime charges of about $40 million annually and voluntary inspection recovers about $800 thousand through Agencies fees. Under the user-fee proposal, an additional $365.8 million would be collected in fiscal year 1987 to fully fund the inspection operations currently funded by appropriation.

Mr. WHITTEN. Last year we asked for detailed user fee schedules and you were unable to produce such schedules as the Administration was still determining what approaches would be most equitable and efficient. Now that the Administration has had a year to do this please submit the implementing plan and schedules for user fee.

[CLERK'S NOTE: The study of User Fee Options appears on pages 201 through 248.]

Mr. WHITTEN. In the hearing last year you stated you "are asking the industry to reimburse the government for a service that is of value to them." Yet the main purposes of the Federal Meat Inspection Act and the Poultry Products Inspection Act are to ensure the Nation's commercial supply of meat and poultry products as safe, wholesome and correctly labeled and packaged. Does this sound like it is for the producer or the consumer? Who do you think will finally pay for the user fees? What do you think the average increased cost to the producer will be and what will be the average increased cost to the consumer?

Dr. HOUSTON. For many industries, the delivery of a product or service in accord with a society's standards of acceptability and safety is simply part of the industries' responsibility to the public. For the meat and poultry industry these standards are assured by the USDA inspection services and we believe that it is appropriate for the industry to assume that cost. We can not be sure how marketing dynamics will determine distribution of these costs. However, the total cost added to the industry will be less than a cent per pound.

BUDGET REQUEST

Mr. WHITTEN. What was the agency's budget request to the Department and what was the Department's request to OMB?

Dr. HOUSTON. The 1987 current law agency budget request was $380,976,000 and the Department's request submitted to OMB was for $377,586,000.

Mr. WHITTEN. In the notes you state that although there is a decline in red meat usage you expect the industry to increase its efforts to maintain its market share. Additionally, there is a dramatic increase in poultry products. Given that poultry inspection is more manpower intensive than red meat, how is it that you propose to eliminate 57 personnel from the rolls during fiscal year 1987, and continue existing services.

Dr. HOUSTON. FSIS can maintain the same high level of service as in the past because of our continuing effort to modernize the inspection process. The most recent example of this effort is the implementation of the Streamlined Inspection System for Broilers and Cornish Game Hens. This new system allows increased efficiency in the use of our resources and those of the poultry industry, while still providing consumers with wholesome and unadulterated products. The new streamlined inspection procedure reduces from three to two the number of inspectors required to handle a line, making it possible to eliminate more than 400 positions in 1986. The additional savings in 1987, when full impact for an entire year can be realized, will enable us to meet the target reduction of 57 staff years and the increased demands for our services.

TRAVEL INCREASE

Mr. WHITTEN. Why is there such a large increase in travel funds proposed for fiscal year 1987?

Dr. HOUSTON. Based on the FSIS 1986 Continuing Resolution budget, an increase of $1,727,000 was proposed for travel in 1987. The budget limitations in 1986 resulted in a freeze on employment in FSIS. Through attrition, agency employment will be reduced by 600 in 1986. The prohibition on the hiring to fill vacated positions will also mean a reduction in training—travel costs—of new employees. The 1987 proposed budget permits the reversal of that employment practice. About $1,000,000 of the increased travel is for the training of new employees and $727,000 is for the rising cost of travel and accommodations for our inspection force.

TRANSFER TO THE DEPARTMENT

Mr. WHITTEN. Please give a detailed explanation of the $327,000 transferred to the Office of Governmental and Public Affairs.

Dr. HOUSTON. Of the $327,000 being transferred, $270,000 is for Departmental Administration activities and $57,000 is for the Office of Governmental and Public Affairs. These levels represent the FSIS share of USDA-wide activities coordinated centrally by the Department for support activities previously billed to the user agencies. The transfers to the Department will mean that the Department will request and justify the funding levels for these activities in the future. A complete list of the activities affected follows:

Services transferred from FSIS financing to USDA in the 1987 budget

To departmental administration:	
SES candidate development	$6,316
Upward mobility	12,628
Honor awards	4,056
Central job information	15,301
Ethics in government	10,324
Performance appraisal	15,854
EEO complaints	50,697
Examiner services	23,505
Cost management	45,811
Personal management evaluation questionnaire	737
Management analysis reporting system/personnel management information system	25,348
Emergency preparedness	22,491

Health services	36,502
Total	269,570
To Office of Governmental and Public Affairs:	
Photo composition	7,000
USDA Newsletter	30,867
Visitor information center	8,507
TV productions	2,641
Other (public liaison, photo center, et al.)	8,000
Total	57,015

OTHER SERVICES EXPENSES

Mr. WHITTEN. Please provide for the record a sub-object class display of your expenses for "Other Services" for 1985, 1986, and 1987.

[The information follows:]

OTHER SERVICES

[Dollar amounts in thousands]

	Fiscal year—		
	1985	1986	1987
Farm animal residue avoidance database		$125	
Food chemistry laboratories—fat and moisture sample analysis	$1,763	1,776	$1,900
Cross utilization agreement with States and other agencies	321	400	400
Other project contracts	2,717	2,238	2,300
National Finance Center	3,794	3,339	3,500
Central support (departmental administrative services)	840	840	700
Agreements with ARS for laboratory space and services	1,388	1,342	1,400
Training	1,892	800	1,600
Renovation (office and laboratory space)	585	450	500
Repairs, maintenance agreements	430	440	500
Arts, graphics and video tapes	120	110	120
Consumer Information Center, GSA (publications)	150	150	150
Non-travel claims on travel vouchers	142	148	150
Other service contract	871	900	685
Total	15,013	13,058	13,905

EXPORT ADVISOR

Mr. WHITTEN. In the past couple of years you have added a new position called Export Advisor. Tell us how this position has been working. Has it made any distinguishable difference in exports?

Dr. HOUSTON. One important responsibility of FSIS is to minimize regulatory impediments to world markets for U.S. meat and poultry products. In the Middle East, Far East and Southeast Asia, the Export Advisor's responsiblities include negotiating regulatory issues; presenting FSIS perspectives and policies; monitoring developing trends that may impact U.S. exports; and providing veterinary expertise to U.S. embassies and foreign government officials.

The impact of the Export Advisor can best be illustrated by the following examples:

In 1984 only 2.4 percent—13 million pounds—of the total U.S. poultry exports—poultry parts—were shipped to Egypt. In late 1984, Egyptian Ministry officials stopped issuing export licenses for U.S. poultry parts because of concerns relating to the source of

Grade A poultry parts in the United States. The Export Advisor participated with U.S. industry representatives in discussions in Cairo and invited a delegation of Egyptian ministry officials to review U.S. procedures and facilities. The Egyptian concerns were all resolved as a result of this review and discussions. Resolution of this impasse contributed to an increase in U.S. poultry exports to Egypt from the 13 million pounds in 1984 to 24 million pounds in 1985.

In 1985, U.S. meat and poultry exports are being evaluated microbiologically by importing countries such as Hong Kong, Singapore and Saudi Arabia. Shipments from the U.S. have been refused entry in each of these countries. The Export Advisor has been active in presenting the FSIS position to each of the ministries involved in enforcing a "zero tolerance" criteria. As a result Singapore has their microbiological evaluation program on hold, Hong Kong is currently reviewing the scientific information presented by the Export Advisor on his last visit and Saudi Arabia has agreed to review their position before rejecting further U.S. shipments.

In the face of unfavorable exchange rates and foreign subsidy programs, U.S. meat and poultry exports increased by 92 million pounds.

STREAMLINED INSPECTION SYSTEM

Mr. WHITTEN. Your budget proposal shows a decrease of $1.4 million achieved by streamlining agency operations. Please provide us a detailed explanation of this streamlined process.

Dr. HOUSTON. This saving in funding and staff years (57) result from the annualized impact of the "Streamlined Inspection System" implemented in 1986. We will be continuing throughout fiscal years 1986 and 1987 to seek further improvements in the agency's efficiency in delivering services.

GRANTS-TO-STATES

Mr. WHITTEN. For the grants to States program you state that there will be a 5 percent increase in cost for the program. Yet, the Administration inflation factor for fiscal year 1987 is significantly lower. Please explain why the State program will have significantly higher costs than the Federal program.

Dr. HOUSTON. The increase for state programs includes increased costs for salaries as well as travel, training, and other goods and services. The overall 4.5 percent inflation rate for States reflects a recent history of higher rate increases for salary and benefits than for other goods and services. The Federal program which includes only non-salary costs, estimates an inflation rate of 4.1 percent on goods and services. These rates are issued by OMB and are applied government-wide in forecasting cost requirements.

STATE USER FEES

Mr. WHITTEN. Part of this year's budget proposal will include separate legislation permitting States to implement their own user fee program. What discussions have you had with State Agriculture Departments about this? How receptive are they to the idea?

Dr. Houston. Reception to the idea of States' implementing their own user fee program to fund State meat and poultry inspection programs has been mixed. This is due in part to the commitment each State has made to continuing its particular program and overall State budgetary concerns.

Over the past year, interest has been expressed by some states in implementing user fee programs which would require Federal legislative authorization. The USDA legislative proposal, currently being reviewed by OMB, would give States the discretionary authority to implement a user fee program should they deem it to be in their State's best interest.

It is important to note that, should this proposal be acted upon favorably by Congress, it would not require States to implement a user fee program, but only give them the authority to do so if they so desire.

NATIONAL ACADEMY OF SCIENCES

Mr. Whitten. In July 1985, the National Academy of Sciences (NAS) issued a report on the meat and poultry inspection program. What was the cost of this study?

Dr. Houston. The contract for this study was awarded in late 1983 at a cost of $480,000. The purpose was to obtain an independent view of the meat and poultry inspection practices by a recognized body of experts in public health, food microbiology, food science, veterinary medicine, analytical chemistry, toxicology, biostatistics, and risk assessment.

Mr. Whitten. Please describe the 17 components of an "optimal" meat and poultry inspection system as outlined by the NAS report.

Dr. Houston. The July 1985 National Academy of Science's Report entitled MEAT AND POULTRY INSPECTION: The Scientific Basis of the Nation's Program assessed the adequacy of the meat and poultry inspection program of today in meeting the challenges of the future. As part of that assessment, the NAS committee evaluated the degree to which the Agency's initiatives are meeting public health concerns, the ability to utilize technological developments in detecting and monitoring microbiological and chemical agents, and how the Agency is exploiting advances in risk assessment methodologies to assess human health risks in meat and poultry inspection.

In undertaking the study, the NAS committee did not limit itself to activities and initiatives solely under the purview of FSIS. Instead, they defined an optimum program as one that is not constrained by the political, economic, and organizational realities of the environment in which FSIS operates. The NAS study included in investigation of all potential sources of health hazards in the meat and poultry food chain. As a result of this broad assessment, the implementation of some of the NAS report recommendations fall outside of the Agency's current statutory authority.

Nevertheless, the NAS committee enumerated 17 characteristics of components that it saw as comprising an "optimal" meat and poultry inspection program. The 17 characteristics identified by the committee will be provided for the record.

[The information follows:]

1. *Animal Identification and Trace-back System*—"A trace-back and recall system from final sale to producer for all animals and products destined to enter the human food supply. This is essential for the generation of data that are important to the prevention of disease in humans and that will enable processors and the government to solve problems in the food chain."

2. *Plant Personnel Utilization*—"Maximum use of plant personnel in process-by-process and day-to-day monitoring of critical control points, and FSIS oversight to ensure compliance."

3. *Technically Qualified Inspection Team*—"Use in all phases of inspection of a technically qualified team with up-to-date knowledge of veterinary medicine, food science, public health, microbiology, animal science, risk analysis, systems analysis, statistics, computer science, and economics. Similarly, managers should have expertise in several relevant disciplines, including veterinary medicine, food science and technology, nutrition, public health, and public management. No one discipline should dominate management."

4. *Risk-based Inspection Program*—"An inspection system with different levels of intensity, reflecting the degree of public health risk at various stages in the process, the reliability of the monitoring system, the compliance history of the slaughterhouse or processing plant, and the special needs of the intended consumer (e.g., military personnel and school children)."

5. *Disease Monitoring*—"Development of a list of the diseases that can be identified by each step in the inspection procedure. This list should be used to determine whether the steps are useful for protecting human or animal health, useful for detecting aesthetically objectionable conditions, necessary to protect consumers against fraud, or able to provide other identifiable benefits."

6. *Retained/Condemned Carcass Analysis*—"Random sampling of retained or condemned carcasses and parts of carcasses in order to develop definitive diagnoses. These diagnoses can be used to establish baseline data on etiologies associated with each condemnation category and to provide material for pathology correlation sessions as continuing education for in-plant veterinary medical officers."

7. *Rapid Screening Tests*—"Rapid, inexpensive screening tests to detect a broad array of chemical compounds and biological products that may be hazardous to the consumer."

8. *Adequate Sampling Plan*—"An adequate sampling plan, designed to protect the consumer from exposure to chemical compounds and biological products that may be hazardous to the consumer."

9. *Hazard Analysis and Critical Control Points (HACCP)*—"Emphasis on hazard analysis and critical control points (HACCP), limiting inspection where the historic yield of violations is low and where public health risks are negligible."

10. *Documented Assurance of Sanitation.*—"Documented assurance, backed by substantial compliance enforcement, of the sanitary wholesomeness of all meat and poultry products."

11. *Broad Range of Penalties.*—"Enhanced enforcement capability to impose a broad range of penalties upon violators, including refusal to inspect and approve their products."

12. *Agency Capability to Increase Technical Base*—"Adequate resource to ensure continued improvement of the technological base of FSIS, including the development of new inspection technologies to reduce cross-contamination of carcasses and more comprehensive assessment of toxicological hazards."

13. *Mandatory System of Initial and Continuing Education*—"A mandatory system of initial and continuing education for inspection personnel that emphasizes food science, food technology, pathology, and public health, combined with a recertification program."

14. *Substantial Scientific and Technical Staff with Role in Policy*—"A substantial scientific and technical staff of respected scientists who play a substantial consultative role in the development of policy."

15. *Standing Advisory Panels*—"The presence of standing advisory panels composed primarily of outside experts to provide consultation on both policy and practice regarding meat and poultry safety. Disciplines represented on these panels should include food science and technology, computer applications, microbiology, biostatistics, epidemiology, veterinary medicine, toxicology, systems analysis, animal health, economics, marketing, nutrition, and risk analysis. Again, no one discipline should dominate any panel. All major regulatory proposals should be viewed by standing panels prior to finalization."

16. *Interagency Liaison*—"Strong liaison between FSIS, CDC, the Food and Drug Administration, and other relevant animal health agencies at the Federal, State, and local levels to ensure that no hazards are overlooked."

17. *Data Systems*—"Substantial use of rapid, timely, and flexible systems (probably computer-based) to acquire, transfer, analyze, and make more widely available data related to inspection and to meat-borne hazards."

Mr. **Whitten**. Provide for the record a listing of all the recommendations in the NAS report and the FSIS action on each.

[The information follows:]

Major Conclusions and Recommendations

"The meat and poultry inspection program of the FSIS has in general been effective in ensuring that apparently healthy animals are slaughtered in clean and sanitary environments. FSIS has made progress in reducing risks to public health from conditions that can be observed during antemortem and postmortem inspection and that can be evaluated during processing. However, substantial challenges continue to confront the agency. Some aspects of the inspection system are poorly defined in terms of objectives relevant to public health. A risk-based allocation of resources, supported by modern technology and a systematic evaluation of the program, would be valuable."

Microorganisms

"The committee recommends that FSIS intensify its current effort to control and eliminate contamination with microorganisms that cause disease in humans. Such efforts should include evaluation of rapid diagnostic procedures for detecting microorganisms, especially species of *Salmonella* and *Campylobacter*, and education of the general public, health care personnel, educators, and extension service workers in the safe handling of meat and poultry. The committee also recommends that meat handling practices in plants be monitored and evaluated in an attempt to prevent the occurrence of meat-and poultry-derived infections among plant employees. Although their prevalance is low, these infections present significant and avoidable occupational hazards. Better epidemiological surveillance and coordination of efforts to eradicate these diseases are also needed."

Residues

"The committee recognizes that the NRP [National Residue Program] is constrained in many ways by its legislative mandates. It recommends, however, that the NRP strive to make substantial progress in several categories to meet the requirements for an optional program identified by the committee. In particular, the NRP should incorporate strategies that would protect consumers from exposure to potential health hazards. One of the ways this could be accomplished is to introduce a system to identify and trace back animals to their farms. The sampling plan to test chemical residues should be revised to improve the confidence level of detection by using appropriate statistical methods and new technological advances. Furthermore, the committee suggests that FSIS reexamine the priorities and the methods used by regulatory agencies for establishing tolerance levels of chemicals to ensure that they appropriately reflect the degree of risk to public health. Formal risk assessment and frequent communication with other regulatory agencies and with scientific peer-review groups would be particularly beneficial to FSIS in this endeavor."

Animal Production

"The committee recommends that means be found for FSIS to coordinate the control and monitoring of hazardous agents during production, where those agents enter the food supply. Furthermore, it recommends that a system be developed for keeping track of food-animals during their lifetime, that procedures be instituted to trace residues in samples back to their sources, and that a national center be established to monitor and store information on animal diseases. To assist in these efforts, the committee recommends that all USDA animal disease surveillance programs be designed and implemented to use fully the animal disease prevalence data obtained from meat and poultry inspection programs."

Inspection Methods

"Overall, the committee recommends that the precepts of risk assessment (identification of the problem, exposure assessment, hazard assessment, and quantitative health risk assessment) by systematically embodied in the planning and evaluation of all phases of meat and poultry inspection, and that risk-assessment criteria be used regularly to assess consequences to public health of any modification in the inspection process."

"Despite its preliminary conclusion based on the limited information that TQC works satisfactorily, the committee recommends that newer technologies be incorporated into TQC and that personnel be recruited and trained to increase the efficiency of the system. As explained below, the committee favors the incorporation of the HACCP (Hazard Analysis and Critical Control Points) approach into meat and poultry slaughtering and processing operations, including the TQC program."

"Whereas traditional inspection applies primarily to the anti- and postmortem phases and TQC is currently applied during the processing of meat and poultry, HACCP is a comprehensive approach applicable to the range of operations from production of animals to slaughter, processing, and handling in retail outlets, food-service establishments, and homes. Traditional inspection and TQC are structured to comply with Federal sanitation and with aesthetics and economy in producing safe and wholesome products. In contrast, HACCP is concerned primarily with criteria relevant to public health."

"The committee recognizes that FSIS has implemented the principles of HACCP in certain operations; however, it recommends that those principles be applied more rapidly and comprehensively in plant operations and that periodic evaluations be performed to ensure that critical control points related to public health are emphasized in the inspection process in addition to whatever control points are needed for reasons related to aesthetics and economy. This should apply to both traditional and TQC approaches. To achieve both operational efficiency and protection of public health, critical control points must be identified, inspectors trained in the HACCP approach, and procedures regularly monitored."

Advanced Technology

"In the judgment of the committee, the techniques that have the greatest potential applicability to FSIS procedures are imaging techniques, computer-assisted information transfer, and automated laboratory methods for analysis and measurement. To achieve the goal of installing a modern, technology-based system, the committee recommends that FSIS develop a capability for conducting or contracting for scientific and technical research tailored to its needs, rather than depending on other USDA agencies. However, interaction with other USDA agencies, other government agencies, and private groups is essential. Thus, the committee also recommends the establishment of a scientific advisory body composed of representatives from government, industry, universities, and research organizations to facilitate such interaction."

FSIS RESPONSE

Since the receipt of the NAS report in July 1985, the Agency has undertaken a thorough and systematic review of the report's findings, conclusions, and recommendations. The review has become part of the Agency's long-range planning process and will assist the Agency in laying the foundation for buildng FSIS future agenda.

The Agency reviewed the report in terms of the 17 characteristics of an optimal meat and poultry inspection program. It became apparent that a resorting and grouping of the characteristics would make the review more manageable due to overlaps in several areas. This regrouping resulted in the identification of nine topical areas for which task force committees were formed. The nine groupings or subject areas are:

1. Animal Identification and Traceback
2. Microbiological Contamination
3. Residue Control
4. Disease Control
5. Data Systems
6. Research and Development Agenda
7. Agency Technical Capabilities
8. Public Education
9. Risk-based Program Evaluation

Committees corresponding to the subject areas were then formed with the responsibility of reviewing all findings, conclusions, and recommendations pertinent to their topic. In performing their assigned tasks, the committees reviewed the NAS recommendations, then developed alternative options to implement each of the recommendations made by the NAS committee and select the most efficacious option. The Agency committees were forced to focus their efforts on the realities and constraints facing FSIS including limitations imposed by the Agency's legislative and budgetary authorities. However, these constraints did not prevent the committees from recommending alternative courses of action that would result in an "optimal program" for FSIS.

The FSIS response to the NAS report is now under review by policy level officials in the Department, as many of the NAS recommendations would require major policy decisions and legislative changes.

The NAS report underscored the fact that FSIS has already undertaken many initiatives that will help it achieve an optimum inspection program. As always, the Agency will continue to work closely with all parties including Congress, industry, and consumer groups in its effort to streamline and modernize the inspection program. The Agency is consistently evaluating and modifying its activities to respond to substantial changes in consumer choices, and science and technological innovations in the meat and poultry industries. Many of the Agency's initiatives strive to make the inspection process more effective while maintaining or reducing the resources necessary to inspect increasing amounts of product. These initiatives not only improve the effectiveness of the inspection program but enable industry to utilize new technology and improve its own productivity.

NEW INSPECTION PROCEDURES

Mr. WHITTEN. Describe in detail the new slaughter inspection procedure and the use of the plant operated partial quality control program.

Dr. HOUSTON. The New Line Speed—NELS—inspection system is an alternative voluntary method of post-mortem inspection for Broilers and Cornish Game Hens. The NELS inspection system uses three post-mortem inspectors on each eviscerating line. Each inspects the outside of the bird with the aid of a mirror, the inside, and the viscera of every bird presented. The inspectors determine whether the bird should be condemned, salvaged, retained for disposition by a veterinarian, reprocessed, or permitted to move down the line as a passed bird subject to trim and reinspection. After post-mortem inspection is completed at the inspection station, establishment employees perform any necessary trim on all passed carcasses after the giblets are removed.

The completed NELS inspection system consists of three inspectors performing the NELS inspection procedure and one inspector monitoring the application of an approved partial quality control—QC—program designed to assure that the production process is under control and producing acceptable product. This QC program is the basis for the approval of the use of the NELS inspection system in any establishment.

The maximum line speed achievable under NELS is 91 birds per minute. This speed may be reached when all plant conditions are optimal. The inspector-in-charge is responsible for reducing the line speed when, in his or her judgment, the existing NELS system does not permit adequate inspection because the birds are not presented properly or the health conditions of a particular flock dictate a need for a more extended inspection procedure.

Mr. WHITTEN. On an annual basis, how much manpower has been saved by the new line speed inspection system since 1984?

[The information follows:]

The following information is provided concerning the new line speed inspection system (NELS) and the similar new turkey inspection system (NTIS).

	NELS	NTIS
No. of plants	11	5
No. of positions:		
Before	184	32
After	193	23
Net Change	+9	−9

There has been no manpower savings from the implementation of NELS and NTIS. These inspection systems were not designed to save inspectors but to increase the productivity of the industry, by allowing the inspection process to be more efficiently applied. This increased efficiency permits greater line speeds, the processing of more birds per minute, with an equivalent standard for the finished product. The procedure calls for the plant to have an on-line quality control procedure that is monitored by a USDA inspector. As a result, while there may have been some reduction in the number of line inspection positions in a few plants, the monitoring requirement has resulted in an increase in the numbers of inspection personnel elsewhere.

Mr. **WHITTEN**. How many plants do you expect to adopt this system in 1986 and 1987?

Dr. **HOUSTON**. We have no projections for the number of plants that may adopt these systems in 1986 or 1987. A plant interested in increasing its linespeed must be willing to maintain an on-line quality control program and make necessary facility adjustments, and the operations must not require additional inspectors, before we can approve a conversion to NELS or NTIS.

FOOD TECHNOLOGISTS

Mr. **WHITTEN**. What are the educational and experience qualifications for a food inspector and for a food technologist?

Dr. **HOUSTON**. The food inspector occupation requires 3 years of experience which demonstrates knowledge of the characteristics and behavior of healthy animals vs. unhealthy animals or knowledge of sanitation practices and quality control measures used in preparing meat or poultry products for consumption. This experience may be gained by working with livestock or poultry or working in livestock or poultry slaughter plants or other food processing operations where sanitation measures and quality controls are applied. There is no minimum education requirement. However, education may be substituted for the 3 years of required experience. Completion of high school with at least two courses in biology, chemistry, or general science, may be substituted for 1 year of experience. College level study may be substituted at the rate of 1 school year for 9 months of experience, provided such study included an average of 6 semester hours per year in biology, chemistry, and other appropriate subjects.

The food technologist occupation requires one of the following: four years of college with major study in food technology, dairy technology, microbiology, biology, chemistry, physics, or closely related discipline. This must have included at least 30 semester hours in the biological and physical sciences with 20 semester hours in food technology and closely related subjects, or thirty semester hours in the biological and physical sciences with 20 semester hours in appropriate food technology courses, plus a sufficient amount of additional education or experience to total 4 years of education or experience. The nature and quality of this experience or education must be such that it would give the individual the knowledge of food technology comparable to that normally gained by completing the 4 years of college in the above major studies.

Mr. WHITTEN. What will a food technologist be able to do in-plant that a food inspector cannot?

Dr. HOUSTON. Changes which have taken place in the industry, particularly during the past 15 years, demonstrate a greater need for more technically trained inspection personnel.

These changes, which include the Total Quality Control concept, alter the way that the inspection service monitors industry compliance with Federal regulatory laws. Inspectors now must spend more of their time monitoring and evaluating a process and its critical control points rather than performing some routine procedures for checking industry compliance with the law There is a growing need for immediate analysis to determine product acceptability. These analyses may relate to temperatures and restricted ingredients, such as fat, protein, total moisture, and sodium residues. In addition, inspectors must be able to communicate adequately with highly trained industry technicians. Inspection personnel need a basic scientific foundation from which to make sound decisions in dealing with industry officials. There is more of a need now to recognize where and why defects may occur in a given process rather than just finding the defects when they have occurred.

Mr. WHITTEN. What is the GS grade structure for the two positions?

Dr. HOUSTON. The food inspector series is a technician occupation with a grade structure of GS-5, 6, 7, 8, 9, 10, and 11. Nonsupervisory food inspectors assigned to in-plant processing positions are classified at the GS-8, 9, 10, and 11 levels.

The food technologist series is a professional occupation with a grade structure of GS-5, 7, 9, 11, 12, 13, 14, and 15. Food technologists assigned to in-plant processing positions will be classified at the GS-9 or 11 levels.

TOTAL QUALITY CONTROL PROGRAM

Mr. WHITTEN. Of the plants approved as total quality control plants, have any of them been found in violation of the TQC program?

Dr. HOUSTON. In FY 1985, there were 410 Total Quality Control—TQC—Systems in place. Of these two were terminated because they failed to follow the TQC program as prescribed.

Mr. WHITTEN. How often does FSIS monitor operations in TQC plants?

Dr. HOUSTON. Assigned FSIS personnel visit each TQC plant every day that the plant operates.

The frequency of review of critical control points is directly related to the type and volume of plant production.

Mr. WHITTEN. What savings have been found in FSIS operations as a result of the TQC program?

Dr. HOUSTON. It is estimated that through FY 1985, approximately 40 positions and $975,000 in annualized savings were realized at the plant level.

MEAT AND POULTRY IMPORTED

Mr. WHITTEN. Please provide for the record a ten-year table showing the approximate pounds of imported meat and poultry products inspected by FSIS.

Meat and Poultry Imported

	(Millions of pounds)
1977	1,721
1978	2,126
1979	2,216
1980	2,107
1981	1,802
1982	1,922
1983	2,001
1984	2,177
1985	2,449
1986 est	2,450
1987 est	2,450

IMPORT INSPECTION

Mr. WHITTEN. Describe the steps taken by FSIS to correct weaknesses in the import inspection program.

Dr. HOUSTON. FSIS took several steps in 1985 to modernize and strengthen the import inspection program. We will list these actions for the record.

[The information follows:]

Realignment of inspection field force

In April 1985 FSIS further strengthened the Import Inspection Program by realigning its reinspection field force into the organizational unit known as International Programs (IP). Although this unit had been established in 1982 to give special emphasis to the import and export issues, the inspection of imported product at port-of-entry continued to be conducted by the unit responsible for inspection of demestic production.

This reorganization was accomplished so that those responsible for setting policy and procedures for import inspection would have closer ties with the inspectors who actually performed import inspection. Although import and domestic inspectors enforce the same standards, the approach and techniques developed over the past decade to perform import inspection differ considerably from those used for domestic inspection. The domestic inspector actually sees the slaughter or processing operations, which aids in determining the acceptability of the product. The import inspection job is instead one of reinspection or verification that the foreign inspection program had adequately inspected the product. In this way it is more like the verification function of foreign program reviewers than it is like the continuous inspection of the domestic inspector.

Addressing these concerns, FSIS in April 1985 consolidated all its import inspection activities under the Deputy Administrator for International Programs. Approximately 80 inspectors were transferred to the Import Inspection Division and retrained in specialized import inspection procedures.

Import analysis staff formed

In another step to strengthen import inspection, FSIS formed an import analysis staff to manage the extensive computed data generated on foreign inspection programs and on meat and poultry products imported into the United States. This includes the management of information from the Automated Import Information System, which has been in operation since 1979. This computerized system—whose capabilities will be further enhanced in 1986—permits FSIS to vary the type and intensity of reinspection procedures at ports of entry, depending on the type of product involved and the performance history of the producing establishment.

Permanent marking of refused product

One such recent change is the new requirement on product that is refused entry into the U.S. Effective March 1, 1986, the Agency began permanently marking shipping containers of rejected product "U.S. Refused Entry." Rather than have the program maintain physical control of the product until it is exported or destroyed. FSIS is requiring that every shipping container of rejected product be permanently marked "U.S. Refused Entry." Not only will this keep rejected product out of our own marketing channels, but it will notify other countries that the lot was rejected at U.S. ports.

Elimination of destination inspection

FSIS has also taken initial steps to eliminate what has been called "destination inspection"—the process in which the imported product is not inspected at the port-of-entry, but instead is shipped to another location were inspection is performed by a domestic inspector. The agency believes that import inspection requires a different type of expertise and therefore should be performed only by specialists supervised by other import specialists. The new requirement will not affect Canadian product until Janaury 1989, since we do not currently have adequate facilities at Canadian entry points to handle the large amount of imported product.

Other changes

A number of other changes are being made to make import inspection procedures more efficient and closely parallel to domestic procedures. These include changes in net weight inspection requirements on manufacturing products, and revised instructions governing lots with samples in incubation.

On March 1, 1986, the Agency discontinued the practice of providing import inspection services at facilities which were not approved to conduct import inspection. This practice undermined inspectors' ability to enforce requirements to sanitation, method of product handling and other facility standards. Presently, import inspectors are inspecting imported product only at approved establishments.

Finally, the following actions have been undertaken to strengthen import inspection: restructuring import in-plant review and evaluation procedures; conducting two national correlation meetings on import inspection to further uniformity; advancing automated systems to provide information on imported products; and increasing the number of plant supervisory reviews.

SOUTHERN CALIFORNIA

Mr. WHITTEN. In early 1985, there were significant problems relating to the inspection programs in Southern California. While the Department appears to be solving this problem, what caused it and what steps have been taken to assure that it won't happen again?

Dr. HOUSTON. The problems stemmed from a breakdown in the effectiveness of supervision in some areas and the inefficient assignment of qualified inspection personnel.

The following steps have been taken to correct the problems:

The managerial staff of the Long Beach Area Office was restructured to include an additional position to provide better managerial control of processing activities. Also, the area supervisor retired and has since been replaced.

We have implemented a team approach to problems by requiring the involvement and commitment of each level of employee in identifying and designing corrective action. The system identifies responsible individuals, requires documentation, and provides for accountability which was previously lacking.

We have introduced a pilot system in the four processing circuits which is designed to provide more effective and efficient coverage of processing activities. This system, known as the Inspection System Work Plan, requires the identification of each critical control point, prescheduling of the various inspection tasks to verify regulatory compliance, and recording of verification results in a log book.

Critical vacancies have been filled. However, the staffing situation continues to be closely monitored in the Southern California area.

A followup assessment of the effectiveness of program administration and inspection controls in the Long Beach area is now in progress. It will emphasize the progress made in correcting previously identified problems and identify any additional actions we need to take to prevent future problems. A final report will be issued in May.

IRRADIATION

Mr. WHITTEN. Please provide for the record a copy of the agency's procedures for irradiation for pork.

Dr. HOUSTON. A copy of a draft Partial Quality Control—PQC—program for irradiation is enclosed. The finalization of a PQC program is under development and will vary slightly for each processor; we have only worked with one processor at this time. However, the draft provides a fairly complete description of what kind of information would be expected from any irradiation facility desiring to irradiate pork.

[CLERK'S NOTE: The Draft Report appears on pages 249 through 292.]

Mr. WHITTEN. When do you think irradiated pork will be in the marketplace?

Dr. HOUSTON. The Agency does not have any estimate on the time when irradiated product will be in the marketplace. The one irradiation facility that the Agency is working with has not yet satisfied all the preliminary requirements for assuring that their procedure is accurate.

LABORATORY SERVICES COSTS

Mr. WHITTEN. Please explain the $4 million drop in laboratory services costs from 1985 to 1986.

Dr. HOUSTON. The FY 1985 appropriation of $25.5 million for Laboratory Services included $4.2 million for residue control program improvements. During FY 1985, $2.5 million was reprogrammed, with Congressional approval, from Laboratory Services to Slaughter Inspection for inspection personnel costs. This was the third consecutive year for a similar reprogramming. The estimate for FY 1986 for laboratory services reflects this reprogramming as a permanent adjustment. It also reflects a reduction for the one-time 1985 expenditure of $1.5 million for laboratory equipment to update our residue control testing capabilities.

WESTERN LABORATORY COSTS

Mr. WHITTEN. What was the cost of the new Western laboratory in Alameda?

Dr. HOUSTON. The total cost of the new laboratory was $4,650,000. The FSIS portion of the renovation costs in FY 1983 was $2,500,000, primarily for laboratory benches, sinks, fume hoods and installation of laboratory furniture, fans, motors and duct work. The remaining $2,150,000 was paid by the General Services Administration in FY 1982 for building design, and basic renovation.

RESIDUE PILOT PROGRAM

Mr. WHITTEN. Please provide us with a detailed explanation of the residue control pilot in-plant testing program.

Dr. HOUSTON. As announced in May 1985, FSIS is considering the proposal of regulations to control the incidence of violative sulfonamide residues in swine. Before doing so, FSIS will complete a pilot test and evaluation of several in-plant testing methods for the rapid detection of these residues. One method is microbiological; another is a commercially-developed immunoassay test; the third is called SOS—Sulfonamide-on-site—and is developed from the procedures used in FSIS laboratories. FSIS is pilot-testing these methods in slaughter establishments of all sizes and has begun to evaluate them for applicability, logistical support needed, and cost. All three may be proposed for use in different size plants, but at this time the design of the program to be proposed is still under consideration within the agency.

1985 FARM BILL

Mr. WHITTEN. What new requirements does FSIS have as a result of the 1985 Farm Bill?

Dr. HOUSTON. The 1985 Farm Bill contains several sections which will result in new FSIS regulations affecting imported product. Section 1701 contains new language regarding requirements to be met by poultry inspection systems in countries eligible to export poultry products to the United States. This language amends the poultry statute to accomplish the same changes which were put in place for meat by the 1981 Farm Bill, namely to specifically require that eligible countries have species and residue testing programs comparable to those in the United States.

There is new language in Section 1702 regarding annual certification by the Secretary that eligible countries have residue control programs with specific features that such programs can be judged equal to that in the United States. FSIS regards this as an extension of the interest shown by Congress in recent years to assure effective and equitable residue controls affecting all product in domestic commerce. Implementing regulations are presently being developed; it is anticipated that such regulations will result in administrative changes, and that the impact will be minimal on countries presently eligible and exporting to the United States.

There is also new language amending the FMIA regarding controls on live animals from countries which use animal drugs banned in the United States. This section would give the Secretary an opportunity to act in situations similar to the one encountered last year with choramphenicol use in Canadian animals. Implementing regulations have not been developed at this time.

NEW CANNING REGULATION

Mr. WHITTEN. Please provide for the record a copy of your new canning regulation.

Dr. HOUSTON. On April 12, 1984, FSIS published proposed rules on canning regulations. The final rule is currently being prepared by FSIS. A copy will be submitted when published.

LABORATORY REPAIRS AND ALTERATIONS

Mr. WHITTEN. Please provide for the record a table showing the amount you plan to spend on alteration and repair of buildings, by location, during 1986 and 1987.

[The information follows:]

The chart below reflects FY 1987 planned improvements in the air conditioning systems at the Western and Midwestern laboratories.

LABORATORY REPAIRS AND ALTERATIONS

Fiscal year	Alameda	Athens	St. Louis	Beltsville
1986	$25,000	0	$50,000	0
1987	100,000	0	200,000	0

STRENGTHENED ENFORCEMENT AUTHORITY

Mr. WHITTEN. Last year you proposed to submit a legislative proposal to Congress which would authorize USDA to initiate withdrawal proceedings based on convictions for serious violations of law and for recurring infractions and substandard practices. Did you, indeed, submit this legislation, and was it acted upon?

Dr. HOUSTON. This legislation was submitted to Congress on August 23, 1985. Subsequently, both House and Senate referred the proposal to the appropriate authorizing committees. As of now, no hearings have been scheduled and no further action has been taken.

TEN MOST USED ENTRY PORTS

Mr. WHITTEN. Please update the chart that shows the ten most used entry ports that is located on page 477 of last year's hearing volume.

[The information follows:]

Ten most used entry ports for meat and poultry products—1985

Ports	*Millions of pounds*
Philadelphia, Pa.	404.8
Baltimore, Md./Wilmington, De	283.7
New York, N.Y	275.2
San Pedro, Ca	235.9
Albany, N.Y	118.9
New Orleans, La	117.3
Miami, Fl	94.2
San Juan, P.R	90.1
Tacoma, Wa	84.2
San Francisco, Ca	82.6

ENFORCEMENT ACTIVITIES

Mr. Whitten. Please update for the record the table that appears on page 479 of last year's hearing regarding enforcement activities.

[The information follows:]

ENFORCEMENT ACTIVITIES

	1985	1986 (Est.)	1987 (Est.)
Compliance reviews	52,000	50,000	50,000
Violations reported	1,000	800	800
Product detention actions	1,200	900	900
Warning letters issued	1,600	1,000	1,000
Inspection services withdrawn	8	12	12
Recalls of contaminated products	13	13	13
Prosecutions	24	24	24

ON-SITE REVIEWS

Mr. Whitten. How many on-site reviews did you perform during fiscal year 1985 of private laboratories accredited to perform tests for FSIS, and what were the specific results of these reviews?

Dr. Houston. We reviewed 166 accredited laboratories in FY 1985. Of these laboratories 121 were found to have minor deficiencies. Another 23 of these laboratories were found to have major deficiencies. Each laboratory was notified of the review findings and replied in writing when their deficiencies were corrected. In addition, the three FSIS Science laboratories, three contact laboratories and three Agriculture and Marketing Service laboratories were reviewed. Twenty-two private sector laboratories were delisted for moisture, protein, fat, and salt accreditation, one for chlorinated hydrocarbons, one for both chlorinated hydrocarbons and arsenic, one for PCB and chlorinated hydrocarbons, and two for PCB only. These delistings were based on requests from individual laboratories or as a result of poor performance in the accreditation maintenance check sample program. At year's end 17 laboratories were in probationary status. These 17 laboratories must successfully analyze a complete set of accreditation maintenance check samples to remain in the Accredited Laboratory Program. If unsuccessful, they will lose their accreditation status.

CONDEMNATIONS AND RECALLS

Mr. Whitten. What is your estimate of the current annual total losses associated with condemnations or recalled products, and how much did your national residue avoidance program reduce this total in 1985?

Dr. Houston. Condemnations in 1985 involved product which would be valued at about $202 million. In addition, over 1.1 million pounds of processed products having an estimated wholesale value of about $570,000 were recalled and destroyed during the year.

The great majority of slaughter condemnations are because of disease or abnormality. Almost all recalls of processed products are due to deficiencies in product preparation, handling, packaging, or labeling. The greatest impact of our residue program occurs before birds and animals are presented to packers. The Residue Avoidance Program is designed to provide producers with the information they need to avoid residues through good management practices. The surveys conducted by various state Extension Services show that lack of such information is the main contributing factors for residue violations in meat and poultry products. These surveys support FSIS experience and the findings of FDA field investigations.

RESIDUE CONTROL PILOT STUDY

Mr. WHITTEN. How does your pilot study for residue control fit into the National Residue Program?

Dr. HOUSTON. The National Residue Program operates to monitor meat and poultry for violative concentrations of drugs, pesticide and other related chemical residues; to provide educational material to teach producers and processors how to avoid violative concentrations of residues; and to develop and implement intensive screening and regulatory programs to encourage producers to use appropriate management techniques to present residue-safe animals for commerical trade. Screening programs are designed to exert an economic incentive to comply with regulatory requirements.

Among the drugs with which our residue control program is concerned are the sulfonamides, drugs added to animal feed. These have been found in swine for many years. The pilot study is testing a method for rapid in-plant detection of this residue.

Following is a copy of a Notice-of-Intent to regulate the concentration of sulfamethazine residues in swine. This notice states the rationale and sets forth the proposed screening and regulatory program.

[The information follows:]

Proposed Rules

Federal Register
Vol. 50, No. 97
Monday, May 20, 1985

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF AGRICULTURE

Food Safety and Inspection Service

9 CFR Parts 309 and 310

[Docket No. 84-014]

Sulfonamide Residues in Swine

AGENCY: Food Safety and Inspection Service, USDA.

ACTION: Notice of intent to institute proposed rulemaking.

SUMMARY: The Food Safety and Inspection Service (FSIS) is concerned about the continuing occurrence of sulfonamide residues in swine at levels above the established tolerance. To deal with this problem, FSIS is considering amending regulations to implement a stringent residue control program employing in-plant analytical procedures. The goal of this program would be to reduce the incidence of violative sulfonamide residues in swine and to decrease the likelihood that adulterated meat will enter into human food channels. These procedures may have a significant impact on many pork producers and packers. FSIS is giving advance notice of its intentions in order to permit those affected to comment regarding this matter before proposed rulemaking is published.

DATE: All comments must be received on or before August 30, 1985.

ADDRESS: Written comments to: Regulations Office, Attn: Annie Johnson, FSIS Hearing Clerk, Room 2637, South Agriculture Building, Washington, DC 20250. (See also "Comments" under **SUPPLEMENTARY INFORMATION.**)

FOR FURTHER INFORMATION CONTACT: Dr. John E. Spaulding, Director, Residue Evaluation and Planning Division, Science, Food Safety and Inspection Service, U.S. Department of Agriculture, Washington, D.C. 20250, (202) 447-2807.

SUPPLEMENTARY INFORMATION:

Comments

Interested persons are invited to submit comments concerning this notice. Written comments should be sent in duplicate to the Regulations Office and should refer to the docket number located in the heading of this docket. All comments submitted pursuant to this notice will be available for public inspection in the Regulations Office between 9:00 a.m. and 4:00 p.m., Monday through Friday.

Background

Under the Federal Meat Inspection Act (21 U.S.C. 601 *et seq.*), the Secretary is responsible for assuring consumers that meat and meat food products are wholesome and not adulterated. As part of the inspection procedures used to prevent adulterated products from being distributed in commerce, FSIS conducts a national residue program that monitors product for potentially adulterating residues of a variety of substances, including animal drugs. Among the animal drugs are the sulfonamides, drugs added at low levels to animal feed to promote growth. Residues of sulfonamides have been found in swine for many years.

The Food and Drug Administration's (FDA) tolerance level for sulfonamide residues in the edible tissues of swine is 0.1 part per million (ppm) (see 21 CFR 556.670, Sulfamethazine and 21 CFR 556.690, Sulfathiozole). In 1977, the estimated national incidence of sulfonamide residues in swine above the tolerance level exceeded 10 percent. This resulted in an intense effort by FSIS, supported by other agencies in the Department and FDA, to determine the cause for the high rate of violations. The most significant identifiable cause was the carryover of powdered sulfamethazine, a strongly electrostatic form of the most commonly used sulfonamide drug, from batches of medicated to non-medicated feed mixed with the same equipment. This information was conveyed to swine producers through educational programs carried out by the Department's Extension Service (ES), along with information concerning other management practices for removing sources of sulfonamides from swine during the required withdrawal period.

By 1981, the incidence of sulfonamide residues in swine had dropped to about 5 percent nationwide, and in some States to below 2 percent. At that time, the drug industry introduced a granular form of sulfamethazine that reduced the carryover problem. Judging from the availability of the granular drug formulation and the apparent success of the educational effort, FSIS expected th incidence of sulfonamide residues abov the tolerance levels to continue to decline. The national residue program for swine sulfonamide residues was continued at a level sufficient to measure the changes in incidence.

Over the last several years, FSIS concentrated its efforts on learning mor about the factors affecting residue incidence, largely through improved methods for in-plant testing. During the same period, ES, under the Department Residue Avoidance Program, documented the effect of production management practices on residue occurrence in animals presented for slaughter. Residue avoidance projects i several States indicated that producers through practical management controls can present animals with below-tolerance residue levels, including sulfonamide residues in swine. In all cases, certain management practices were found to be essential and had to b followed carefully.

Rather than declining, however, the sulfonamide residue violations measured by the national monitoring program since 1981 have gradually increased to a current incidence level about 7 percent in swine presented for slaughter. Approximately 50 percent of the violative levels are high enough to indicate that many producers have made little or no effort to withdraw th animals from medicated feed. The residue levels in the other 50 percent indicated either incomplete withdrawa or incidental exposure, problems that may be corrected by a greater commitment to good management practices.

FSIS has concluded that this proble may still be corrected by producers, b the impetus for change apparently mu come from increased regulatory actio in the form of a sulfonamide testing program in order to protect the health consumers. This program would entai the testing of "lots" of swine as they delivered to the slaughter plant using analytical technology that permits determination of acceptability of the entire lot within 18 hours or less.

Developing a suitable program to provide this impetus requires, among other things, that FSIS consider how such a program may be accomplished without causing undue hardship for producers and packers and still safeguard the consuming public from adulterated products. Yet, the program must be restrictive enough to ensure that all producers will be responsive and take necessary corrective action.

FSIS is considering the following inspection procedures for reducing the occurrence of sulfonamide residues in swine:

1. Lot Determination

Each lot of swine submitted for ante-mortem inspection would be subject to selection for retention and sampling for sulfonamide residues. A "lot" of swine would be defined as the hogs delivered on one truck at one time to the slaughter premises. The actual number of lots selected for retention and sampling at any one establishment would be one or more (usually two) each day and, in addition would include all lots from any source previously identified as supplying swine whose tissues contained sulfonamide residues above tolerance levels. A "source" would be defined as the location where the truck was loaded unless the Agency is provided with evidence that the origin of individual animals in the lot is other than where the truck was loaded.

Due to resource constraints, the Agency cannot test every individual lot of swine or even a statistically valid number of lots from each day's kill. Therefore, the in-plant inspectors must use their judgment in selection of lots for testing. Selection may be based on previous experience, information available to the Agency, or a random sampling plan. The major principle of selection would be that the establishment would not know in advance which lot would be selected, except for lots from a known previous-violator source, which would be in addition to those tested under the random testing program.

2. Sample Selection

The inspector-in-charge would randomly select up to six but no more than 30 individual swine from the test lot for sample collection and analysis. FSIS has recently discovered that there is a consistent correlation among drug levels in the various tissues, blood serum, and urine of swine. This permits the determination of residue levels in the various tissues and fluids by determining the level in one. In this specific program, the testing material of choice is urine. It is believed the most efficient method to collect urine under slaughter plant conditions would be to allow the slaughter of test animals under retention as provided for in the Federal meat inspection regulations [section 309.16(a)]. The remainder of the lot would be held in the ante-mortem pens until test results are available (this should be within 2 hours after sample collection, if a chemistry method is used). As an alternative, the entire test lot could be slaughtered under retention with all carcasses in the lot segregated from other products until test results are available.

3. Ante-Mortem Screening Tests

The test material (urine) would be analyzed by the inspector-in-charge using either a chemical or microbiological method. Positive test results would indicate that the lot of swine contains one or more animals whose tissues contain sulfonamide residues above tolerance. The "lot" of swine with positive screening test results would be retained subject to further testing as provided in sections 309.16 and 310.3 of the Federal meat inspection regulations. The screening procedures currently available to the Agency are adequate only to approximate the level of sulfonamide residues present in individual animals within a lot. The disposition of individual animals within a positive lot would depend on results for individual animals, or their carcasses and/or parts, from conventional laboratory tests.

It is estimated that the urine screening tests (chemistry method) result would be available to the plant within 2 hours after sample collection; within the microbiology method, 18 hours after sample collection; and in the case of a potential immunoassay method, somewhat less than 2 hours. If blood or tissues are used instead of urine for these tests, 1 to 4 hours would be added to the above times to allow for additional preparation procedures.

4. Post-Mortem Laboratory Tests

Tissue samples from muscle, liver, or kidney used to determine final disposition of individual swine carcasses would be analyzed at a laboratory accredited by FSIS for swine testing in accordance with "The Official Methods of Analysis of the Association of Official Analytical Chemists" (AOAC), 14th ed., 1984, Sections 41.040–41.058, or the "Chemistry Laboratory Guidebook", sections 5.011 and 5.013.

The results of such analyses would be available approximately 3 days after the arrival of the sample at the laboratory. Actual laboratory times would depend on the number of samples awaiting analysis at the laboratory when the sample in question arrives.

5. Disposition of Lots Retained for Testing

A. Those lots of animals which do not contain sulfonamide residues above tolerance levels based on the screening test would be released for normal slaughter and post-mortem inspection procedures.

B. If the results of the in-plant screening test of animals in the lot indicate to FSIS that the offal product of the animals in the lot contains sulfonamide residues above tolerance levels, but the muscle tissues of the carcasses and parts do not contain sulfonamide residues above the tolerance levels, only the offal product from all animals in the lot would be condemned and destroyed for human food purposes. The edible muscle tissues of the animals in the lot would be released for processing under Federal inspection as provided in the Federal Meat Inspection Act (FMIA). However, in lieu of condemnation and destruction of the offal product from such animals, the establishment could exercise one of the following options:

1. Animals involved in the screening test would be slaughtered and their offal would be condemned and destroyed for human food purposes unless handled as provided in #2. The remaining animals in the lot would be retained under the supervision of the inspector-in-charge in clean ante-mortem pens for 48 hours on non-medicated feed and water. Such animals would then be slaughtered and processed under Federal inspection as provided under the FMIA.

2. Slaughter the animals in the lot and retain the offal product from such animals for laboratory testing at the establishment's expense. The conditions for retaining the offal for testing and collection of samples for laboratory testing must be acceptable under FSIS criteria to the Supervisory Veterinary Medical Officer (SVMO) assigned to the establishment. Any offal found not to contain sulfonamide residues above the tolerance levels by such laboratory testing may be presented by the establishment, with the corresponding laboratory results for reinspection. The SVMO would examine the offal offered for reinspection and make or cause to make any additional test that he/she may deem to be necessary before making a final disposition of the product. All offal which is determined by the SVMO to be adulterated, or which is not offered for reinspection, shall be condemned and destroyed for human food purposes. Offal found not

adulterated by the SVMO would be released for human consumption.

C. If the results of the in-plant screening test of animals in the lot indicate to FSIS that the lot contains one or more animals whose muscle tissue, as well as the offal, contains sulfonamide residues above tolerance levels, the carcasses and parts of all animals in the lot would be considered to be adulterated and would be condemned and destroyed for human food purposes. However, the establishment could exercise any one of the following options:

1. Animals involved in the screening test would be slaughtered and their carcasses and parts would be condemned and destroyed for human food purposes unless handled as provided in #2. The remaining animals in the lot would be retained under the supervision of the SVMO in clean ante-mortem pens for 96 hours on non-medicated feed and water. Such animals would then be slaughtered and processed under Federal inspection as provided under the FMIA.

2. Slaughter all the animals in the lot and retain their carcasses and/or parts for laboratory testing at the establishment's expense. The retained carcasses and/or parts of carcasses must be held under security satisfactory to the SVMO to assure that adulterated product is segregated from non-adulterated products. Each individual carcass and part must be marked so that sample results can be related to specific carcasses and parts. The establishment would present any carcass or part of carcass found to not contain sulfonamide residues above the tolerance level by such laboratory testing with the test results to the SVMO for reinspection. The SVMO would examine the carcasses and parts presented for reinspection and make or cause to make any additional tests that he/she deems necessary before making final disposition of the articles. All carcasses and parts which are determined by the SVMO to be adulterated, or not offered for reinspection, shall be condemned and destroyed for human food purposes. All carcasses or parts determined by the SVMO not to be adulterated would be released for human consumption.

Discussion of Options

The Agency particularly welcomes comments on certain options concerning the proposed program.

1. Determination of Lots for Screening

FSIS has considered the possibility of allowing the combination of lots from multiple sources. The Agency believes this would be feasible only if additional information were made available to the Agency regarding those lots; for example, evidence that animals offered for ante-mortem inspection had been properly withdrawn from sulfonamide and other drugs before leaving the production unit. This evidence should originate with the producer, who may rely on existing analytical procedures and production controls in providing such evidence. If lots from premises believed to be producing residue-clean animals are mixed, these claims could be verified by selective testing on a regular basis.

FSIS is also aware that swine frequently pass through intermediate sales points on their way to slaughter. However, the final owner or agent must truthfully represent the animal. Existing customary practices for commerical transactions in the industry readily allow buyers to require that sellers truthfully represent the condition of the animals being offered for sale.

2. Location of Retention

There are essentially two locations for retention on the official premises: In the ante-mortem pens for live animals and in coolers for carcasses and parts. Retention in pens is advantageous because as long as the animal is alive and held in clean pens and on non-medicated feed, the residue level of sulfonamides will deplete at a uniform rate (half-life = 16 hours). Once the animal is slaughtered, there is no known way to remove sulfonamide residues from the carcass.

3. Collection of Sample for Analysis and Testing

The use of urine as the test media would be unique to this program. However, as a direct relationship of average urine levels to tissue levels has been established, the Agency would be able to use this rapid test for screening animals. Because of the location on the slaughter line where the bladder is removed, the most efficient method of collecting the sample would be to have an establishment employee remove the bladder from the test animal. But, because of retention and identification requirements, it may be easier to have carcasses of test animals railed out on the final rail for sample collection. Test animals would have to move through slaughter as a unit, and thus just before or after normally scheduled open spaces on the slaughter line would be ideal points for collecting samples.

The actual test to be used would probably depend on each slaughter establishment's operations. The Agency would attempt to provide timely test results, so that slaughter schedules may be maintained. FSIS would carefully consider requests from companies already having accredited laboratory facilities in the slaughter establishments to conduct the required tests under accredited laboratory requirements.

4. Acceptable Disposition of Condemned Material

FSIS has begun discussion with FDA's Center for Veterinary Medicine concerning the disposition of carcasses and parts condemned for sulfonamide residues. In the past, simple adherence to good manufacturing practices normally ensured there would be no problem with the use of rendered product containing an occasional violative carcass or part. With this program, however, there would be a potential for relatively large proportions of residue-adulterated carcasses and parts going into inedible rendered product and animal feed.

FDA has consistently held that when the owner of large numbers of carcasses and parts containing an adulterating residue wishes to use them in animal feed, the disposition must be decided on an individual case basis. Otherwise, disposition must be in a sanitary land fill in a manner acceptable to local health and environmental authorities.

5. Use of Other Information

Non-analytical information may provide a basis for more selective sampling. The experience gained from the sulfonamide residue program in 1979–1981 and current information obtained from ES and FSIS' in-plant test development work indicate that it is feasible to reduce testing when assurances can be given concerning the proper handling of the swine. The information gained from in-plant testing shows that animals sold to the slaughter establishment directly by producers consistently have a lower incidence of sulfonamide residues compared with animals arriving through intermediate sources. Also, management practices that include withdrawing animals from all sources of sulfonamides for 14 days would result in acceptable levels. There are also procedures for testing animals or feed on the farm that give assurance equal to that provided by in-plant testing that a given lot does not contain unacceptable levels of sulfonamide residues.

The use of such information by FSIS as a basis for sampling depends on its being available to FSIS personnel at the slaughter establishment in a credible form at the time of ante-mortem inspection. Examples of acceptable documentation are available in FSIS' residue program in cooperation with the poultry industry and the current effort to reduce antibiotic and sulfonamide residues in bob veal calves. These methods of documentation could be included eventually in the regulatory program.

Done at Washington, D.C., on May 14, 1985.

Donald L. Houston,

Administrator, Food Safety and Inspection Service.

[FR Doc. 85-12052 Filed 5-17-85; 8:45 am]

BILLING CODE 3410-DM-M

FOOD TECHNOLOGISTS TEN-YEAR PHASE-IN PLAN

Mr. WHITTEN. Dr. Houston, you state in your opening remarks that budget restrictions will prevent you from implementing your ten-year phase-in plan for food technologists this year. How much money would you need to implement this program?

Dr. HOUSTON. First, I would like to explain why we decided on a 10-year implementation plan. A review of the types of positions to be affected by the introduction of food technologists into the inspection workforce demonstrated that over 1,000 employees could be affected. The Agency will, to the fullest extent possible, provide employees the opportunity to become food technologists if they make a personal commitment to do so.

Introduction of food technologists into the workforce will be accomplished by two means—in part by conversion of existing personnel that qualify for the food technologist occupational area, but primarily through new hires. It is for this reason that the Agency has designed a 10-year transitional program in order to minimize the impact on affected employees.

[Additional information follows:]

We would need approximately $800 thousand annually to implement the food technologist program, as follows:

Expense area	*Cost*
1. Establish 20 entry level positions to back-up employees in training	$435,000
2. Establish and maintain a training program for new hires and employees that are converted	300,000
3. Establish a financial assistance program for existing employees to provide additional education required for food technologists	65,000
Total	800,000

IMPORT INSPECTORS

Mr. WHITTEN. What special expertise do import inspectors have that your regular domestic inspectors do not have?

Dr. HOUSTON. All import inspectors have received specialized formal classroom training. The following topics are mastered as a result of this training: import facility requirements, foreign health certification, import marking and labeling; import sampling procedures, instructions for completing import documents, and refused entry procedures. In addition, import inspectors must have knowledge of USDA's Animal and Plant Health Inspection Service (APHIS) requirements and the U.S. Customs Service regulations.

Import inspectors have access to the Agency's centralized computer system known as the Automated Import Information System (AIIS) which assists the inspector in determining foreign plant certification, and in assigning examinations and tests based on each foreign plant's record of compliance with USDA requirements. Import inspectors have subject matter experts available at the Import Field Offices to respond to technical questions. All of these inspection tools give the import inspector the unique capabilities to monitor the condition of imported product in the most uniform and effective manner.

SALMONELLA CONTROL

Mr. WHITTEN. How much money do you spend each year on salmonella control research?

Dr. HOUSTON. FSIS is primarily responsible for inspection and testing while USDA research, including that needed for FSIS activities, is conducted by the Agricultural Research Service.

Since 1981, the control of salmonella in domestic animals has been established by FSIS as the number one research priority. ARS efforts for FSIS have included research in areas of feed, antibacterial agents, carcass spray/wash systems, processing temperatures, meat production and slaughtering methodology, poultry chilling methods, and practical methods for laboratory analysis.

FSIS conducted various studies for reduction of salmonella. These include the use of acetic acid in poultry scald tank water, and the evaluation of slaughter and processing procedures that will reduce the incidence of salmonella. The Agency is also determining the levels of salmonella contamination in inedible rendered protein concentrates used for animal feed supplementation. This project should greatly reduce contamination on the farm. FSIS spends approximately $100,000 per year for these activities.

WITHDRAWAL OF INSPECTION

Mr. WHITTEN. During 1985, how many cases did you have where you withdrew inspection services because of continued violations?

Dr. HOUSTON. The law permits FSIS to withdraw inspection based upon a plant's unfitness to operate as demonstrated by one felony conviction or several misdemeanor convictions. During 1985, there were seven cases for which inspection services were withdrawn, involving criminal convictions. Withdrawal of inspection can also be based upon unsanitary conditions which lead to the adulteration of food, or upon assault of or threats to an inspector. One additional case involved an attempted intimidation of an inspector for which withdrawal action is being held in abeyance, as long as no further instances of that nature occur.

CONFISCATED MEAT

Mr. WHITTEN. In your statement you indicate that the FSIS seized 90,000 pounds of meat in five separate court actions. What do you do with this meat after you confiscate it?

Dr. HOUSTON. These are actions we initiate in Federal District Court. Seizure is by court order, rather than confiscation by the Department. Meats are destroyed by incineration, denaturing/burial, or supervised inedible rendering at a suitable rendering plant. We routinely cooperate with the responsible U.S. Marshals in overseeing proper destruction of these products.

Mr. WHITTEN. Mrs. Smith.

USER FEES

Mrs. SMITH. Thank you. We are delighted to have you folks appear before the subcommittee. You know this proposal that we go to user fees, regardless of the authorization and whether or not we get it introduced, is causing a great deal of consternation among my constituents. I come from a beef state where we have 11 head of cattle for every person in my district—So I have been getting a lot of letters. They feel that the standard of this proposed inspection would be reduced if we were to go to the user fee program, and they wonder how much this would increase the cost to the consumer. Further, they probably worry more about how much it would decrease any possible profit that the producer might be getting. Would you comment on this area?

Dr. HOUSTON. Well, if we do charge a user fee system, it would be our plan to charge that fee at the time of slaughter. Then those costs would pass on as meat passes through the distribution system to processors or consumers.

Our studies show that while we can't predict what people will add on to the costs, the actual cost of meat at the retail level would be a half or three quarters of a cent a pound greater. But as I said, I can't predict what others might do in adding on those costs. But if you strictly take the arithmetic and divide the pounds into the inspection costs, that is what it comes out to be.

Obviously, I think you are alluding also to the possibility of having those costs passed back to cattlemen and in all reality that possibility does exist. Costing can go two ways, back to the producer or on to those people who purchase the meat. However, we think that in most cases they would be passed through the system to processors or consumers.

Mrs. SMITH. Now, Dr. Houston I note. It says that you could base your fees on hours of inspection or you could base it on volume of production. How do we charge for inspecting meat that we import?

Dr. HOUSTON. At this time?

Mrs. SMITH. Yes.

Dr. HOUSTON. We do not charge for it. It is paid for through appropriated funding except for overtime, which the importers pay for.

Mrs. SMITH. I note that this budget reduction would call for restricting training and laboratory contracts. I wonder what this would do to the quality of our services?

Dr. HOUSTON. I am referring there, Mrs. Smith, to the fiscal year 1986 budget which we are currently into and, as my statement says, we have cut back on those services. We have cut back on hiring. I think in the short term, the impact will not be severe. I think in the long term though, if those cuts stay in place, then we will have to reset our priorities in inspection, and determine where our monies are going to be spent, because obviously, we won't have as much to utilize.

STAFF REDUCTIONS

Mrs. SMITH. I was listening to you carefully. You said in the poultry inspection you had reduced staff by 400 people and had incorporated a new method of inspection. Also you said that this really isn't enough. I wonder what this would do to the quality of inspection?

Dr. HOUSTON. I think at this point the quality of inspection is adequate. As I said, in the short term I don't see any problems, but if these kind of cuts continue and we cannot have people certainly we are going to have to re-establish our priorities. But is may be several months before the significant effects are felt.

ALTERNATIVES TO USER FEES

Mrs. **Smith.** Just one more question. Have you looked into any alternative avenues for addressing the present budget problem other than this proposed user fee?

Dr. **Houston.** Well, at this point it has been the policy that we should try to get a full user fee system. Obviously there have been discussions that a partial user fee system could be of some benefit. That has been discussed, paying for certain services and not others.

Mrs. **Smith.** Thank you very much. We are always delighted to have you appear before our subcommittee.

Mr. **Whitten.** Mr. Natcher.

INSPECTION SYSTEM IN KENTUCKY

Mr. **Natcher.** Dr. Houston, as you know, we have a different system in some of the states in regard to meat inspection. What is the system in Kentucky, is it a system whereby Kentucky makes all of the inspections and receives a refund from the Department? What system do we have in effect in the State of Kentucky?

Dr. **Houston.** Kentucky is a designated state and as a result, all the plants operate under Federal inspection. We still have 27 states, however, that do operate inspection programs for intrastate commerce and in which the states carry out the programs and receive half of their funding from the Federal sector. We provide oversight to see that they maintain an acceptable program.

Mr. **Natcher.** Thank you.

Thank you, Mr. Chairman.

Mr. **Whitten.** Mr. Watkins.

Mr. **Watkins.** Thank you, Mr. Chairman.

Dr. Houston, you mentioned the use of irradiation. Are you doing any experiments or are you utilizing irradiation in any other food safety activities?

IRRADIATION

Dr. **Houston.** We have recently approved the use of radiation for use on fresh pork, fresh pork only. There is also substantial research underway by the Agricultural Research Service, working with the Food and Drug Administration, to see where radiation may be extended and used in other areas, such as controlling certain insects in food, and certain vegetable products as an example. But it is still somewhat embryonic in nature. It is a new technology that isn't widely used in food production at this time.

Mr. **Watkins.** A number of countries are not purchasing our agricultural products because of the use of insecticides and fungicides on these products. It is my understanding a number of countries are buying products from countries that use low levels of irradiation. The U.S. has not utilized this technology a great deal. I am wondering if there are any other areas in the food safety area where irradiation is being applied other than pork?

Dr. HOUSTON. That is generally where it has been approved. It has also been approved in other areas such as in the treatment of wheat for certain insects. It is approved for use in spices, to control insects. But for the most part it is not widely used and as you point out, is more widely used in some European countries than it is here.

I would only add that radiation is considered a food additive in this country and therefore it is subject to the food additive provisions of the Food, Drug and Cosmetic Act.

Mr. WATKINS. What was the ruling FDA made about it being a process?

Dr. HOUSTON. No, it was never ruled to be a process. It was ruled to be a food additive. There has been some legislation considered that would change it to a process, but it has not been successful.

Mr. WATKINS. To turn to another subject, I also share the chairman's concern about the proposed user fee. Have you got anyone who is introducing legislation to implement user fees for the Administration?

USER FEE PROPOSAL

Dr. HOUSTON. At this moment, the bill is still in clearance procedures between the Secretary's office and OMB, and I am not aware that any work has been done to secure someone to introduce that legislation.

Mr. WATKINS. I am concerned about it especially because inspection and safety is for the benefit of the consumer. We need to make sure we are to continuing a very viable agricultural marketing and safety program that the consumer can feel good about. When people see the USDA stamp inspection they believe it is a quality product. I hope we never lower or downgrade that inspection quality, because I believe a lot of people make their choice of meats, vegetables, or small fruits based on this stamp of quality.

Let me ask you another question. Is the Food Safety and Inspection Service the only public agency in the Administration budget package to ask for a user fee?

Dr. HOUSTON. There are some user fee proposals related to FDA, but I am not aware of the specifics for this year, and there are a number of other programs in USDA, but I don't think any are public health related other than egg products inspection.

Mr. WATKINS. Let me ask one other question on inspection of poultry. Some of the poultry inspectors in my area tell me they must inspect about 35 birds per minute. Is that an average inspection rate? Are they capable of doing a proper inspection at that rate?

NEW INSPECTION METHOD

Dr. HOUSTON. Yes, and those figures——

Mr. WATKINS. How do you mean that yes?

Dr. HOUSTON. I am saying you are right, you are accurate in what you say about lines and numbers of inspectors. In fact, we recently made that change that you are talking about.

Mr. WATKINS. What change did you make?

Dr. HOUSTON. We went from three inspectors to two on lines running 70 birds per minute. It resulted from the great deal of work accomplished over the last several years in which we modernized the inspection program in a number of ways. We know that poultry is very different today than it as back in 1956–1957 when the Poultry Products Inspection Act was passed.

There are much better management techniques, much better husbandry being practiced, and we have much healthier birds coming to slaughter. The kind of inspection intensity that was needed at that time is certainly not needed today, and we carefully looked at these new procedures and we can assure you that the quality of the poultry coming out of those plants is just as good as it was under the more traditional systems.

Mr. WATKINS. Well, thank you for your answer. I would like to encourage you to make sure that the general public and consumers feel that the quality is consistent not only on poultry but red meats. We have got to make sure the housewives feel like they are purchasing a quality product. I hope that you will see that happens in your agency, because I think it is very, very important.

USER FEE LEGISLATION

Gentlemen, I would like to take issue with your proposal to implement user fees and to shift more responsibility to industry plant inspectors as opposed to USDA inspectors. I think one of my constituents has certainly placed both issues in perspective when he says "it's like giving Jesse James the combination to the bank vault."

Does USDA have someone to introduce legislation to enact user fees? If so, could you expound on who that person will be?

Dr. HOUSTON. The proposal is currently under review and has yet to be finalized for transmittal to the Congress. We plan to find someone to intoduce it at that time.

Mr. WATKINS. If users fees are implemented, will this agency have a need for coming back to this committee this year? In other words, your agency will no longer be responsible to this committee? As I recall, we let the farm credit system sever all financial ties a few years ago and we can see where that led us. Since we're dealing with the public's health, I think it is of continued concern that you be responsible to this committee.

Dr. HOUSTON. We would welcome the opportunity to continue to appear before this committee to explain our program funding levels. The decision whether FSIS is to appear annually before this committee will be determined by the Congress. I am confident that Congressional oversight will not diminish.

Mr. WATKINS. Is FSIS the only public health agency in the administration's budget package to ask for a user fee? Are not most public health agencies in the FY 87 budget asking for outright budgetary increases without the implementation of user fees?

Dr. HOUSTON. Within USDA the Egg Products Inspection program is requesting full user fee funding. The Environmental Protection Agency's budget proposes user fees for licensing chemicals and pesticides. The Food and Drug Administration's budget request is for an appropriation about equal to that of 1986, but with a proposal that new drug approvals be reimbursed by a user fees. The budget for the Centers for Disease Control requests user fees for some training that they perform.

Mr. WATKINS. Why should this agency be asked to lessen their effectiveness to public safety, when we are asking for increases in other areas of public health? Isn't this agency's responsibilities just as important as those asking for increases?

Dr. HOUSTON. We take our public health responsibilities very seriously and we will continue to do so, whether our financing comes from an appropriated fund on a public enterprise fund.

Mr. WATKINS. How do you view a user fee would affect the state operated inspection program?

Dr. HOUSTON. With Federal user fee authorities, all financial support from this Agency for state programs would be eliminated. We do not know how each state will react to this. Some states may impose user fees to fund the current federal reimbursement share. Some may impose user fees to cover the entire cost of their program. Some states may elect to fund the program entirely through state appropriations, while others may choose to terminate their programs, relinquishing inspection to the Federal Government. Each state would respond according to its individual circumstances.

Mr. WATKINS. In effect would not a 100% user fee scheme as opposed to a 50-50 share cost now put the state inspected plants under federal inspection? If so, doesn't this imply an expansion of Federal programs and not a lessening?

Dr. HOUSTON. The reactions of the states may vary. However, to the extent that they choose to terminate their programs, it will result in a corresponding increase in the Federal inspection responsibilities.

Mr. WATKINS. Do you see an imminent danger of inspectors being more responsive to what industry wants as opposed to guidelines set by USDA since their salaries are in effect being paid by that plant?

Dr. HOUSTON. The industry has, for years, been paying for inspection performed on overtime, without any evidence that this has in any way influenced inspectors' diligence in applying our guidelines. Plants would not pay the salaries of federal inspectors, nor determine their assignments, promotions or awards. All personnel and pay matters would remain in the hands of the federal agency as they are now.

Mr. WATKINS. I expected that response. I know that I have always been more responsive to the people who directly pay my paycheck as opposed to the entity that has nothing to do with what I receive. I think we are making a mistake when we say that we expect the same quality product by letting industry inspect their own product. On another note, Dr. Houston, does your agency plan to implement a final rule that would premit FSIS to regulate the hours of inspection and consequently regulate the hours of the industry they service?

Dr. HOUSTON. The agency is planning to amend its regulations regarding the approval of operating schedules of establishments. The amendment would provide that FSIS area supervisors will assign schedules of operation during which Federally-funded inspection will be provided to official establishments. To the extent possible, area supervisors will accommodate work schedules proposed by individual official establishments. The amendment also provides that, except in the event of an emergency, the area supervisor must be notified of any changes to an establishment's assigned operating schedule two weeks in advance of the proposed change, and that the establishment reimburse FSIS for overtime costs incurred as a result of accommodating any deviation from an assigned operating schedule. Recent budget constraints have resulted in a reduction of the numbers of inspection program personnel available to perform inspections. This amendment is required to ensure that Agency resources are used and allocated in the most efficient and equitable manner.

NEW INSPECTION SYSTEM

Mr. WATKINS. Were the people created for the benefits of government? I think not. It was government that was created for the people. In this light we need government conforming to the people's needs. Turning to another subject, did not your agency pass regulations last year that would allow each individual inspector to increase the amount of poultry he can inspect in one hour?

Dr. HOUSTON. The final rule for the New Line (NELS) inspection system for broilers and cornish game hens was published in the Federal Register on October 23, 1984, and became effective on November 23, 1984. Establishments which voluntarily went to the NELS system of inspection are allowed to run their three inspector lines at 91 birds per minute (bpm) under optimum conditions, up from the maximum allowable 70 bpm under Modified Traditional Inspection.

On January 29 an interim rule was published in the Federal Register mandating that the Modified Traditional Inspection (MTI) procedure used by the Department for the inspection of broilers and cornish game hens would be replaced by a new Streamlined Inspection System (SIS). MTI utilized 3 inspectors and permitted processing lines to run at a maximum of 70 bpm or 23⅓ bpm per inspector. SIS uses 2 inspectors who can inspect up to 70 bpm or 35 bpm per inspector.

QUALITY CONTROL

Mr. WATKINS. And with that came a shifting of quality control to the plants, is that correct?

Dr. HOUSTON. Both the New Line Speed—NELS—and the Streamlined Inspection System—SIS—require the plant to have and operate an approved partial quality control—QC—program designed to assure that the production process is under control and producing acceptable product. Within the QC program are Finished Product Standards which the Agency has set and the product must meet before the product is allowed to leave the plant. This QC program is continually monitored by Agency personnel assigned to the plant to assure that the establishment operations are performing properly, and the production process is under control and producing acceptable product.

Mr. WATKINS. With implementation of the Streamlined Inspection System you have testified that two inspectors are doing the job of three. That tells me we are doing a disservice to the people of this country if we expect them to be able to do the same quality job as before.

The poultry inspectors in my district tell me that with the SIS each inspector inspects the inside of the animal and ¼ of the outside surface all at a rate of 35 birds per minute. That's as mindboggling as the National Debt and the call for an increase of the budget for the White House.

Finally, I want to quote a letter from a constituent of mine who is a floor inspector. "Under the SIS program, it is turned over to the Plant's Quality Control Program employees to retest and take corrective action. During the retesting process unwholesome product is being packed for your children and my children to eat. If the Quality Control Employee wants to stay employed at the plant, and do their job, they have a problem."

I concur that we need further inspection procedures and should continue to let USDA police the industry and not let industry be responsible entirely for the safety of the consuming public.

Dr. **Houston**. Thank you for your comments on the Streamlined Inspection System.

Mr. **Whitten**. Mr Akaka has some questions which he would like answered for the record.

IRRADIATION OF PORK

Mr. **Akaka**. Dr. Huston, I am interested in your assessment on the demand for the irradiation technology. In your statement you say, "Although only a small amount of the fresh pork supply is likely to be irradiated in the near future, the technology is there." It appears that you believe that the use of irradiation technology by the meat and poultry industry will be very modest. Why is this so?

Response. Use of irradiation for foods in this country requires FDA approval. In 1985, FDA approved the use of irradiation for trichina control in pork in response to an industry petition. Following that, FSIS on January 15, 1986, approved the use of low-dose gamma irradiation in federally inspected plants solely to control trichinae in fresh pork. After considering the special characteristics of pork, FSIS limited its approval of low-dose irradiation for trichina control to pork carcasses, or fresh or previously frozen cuts of pork carcasses that have not been cured or heat-processed.

Based on consumer inquiries, it appears that the demand for irradiated products will be modest. There appears to be insufficient consumer education which emphasizes the benefits of this technology. In addition, the presently-allowed use of irradiation is strictly for the control of trichinae in fresh pork. Irradiation may not substitute for trichinae control procedures in other pork products, such as cured hams; consequently, the fresh pork market is the only viable outlet for the product. Finally, most consumers adequately prepare their fresh pork products to prevent incidents of trichinosis.

Use of irradiation to control other microorganisms in the meat and poultry supply is a future possibility which requires research and approval from FDA.

Mr. **Akaka**. Is any irradiated pork available now to the public, and if so, where is the pork being processed?

Response. There is presently no federally inspected irradiated pork available to the public. The quality control program for the first irradiation facility, located in Haw River, North Carolina, has not yet been satisfactorily developed. FSIS approval for commercial production is dependent upon agency review of data generated from approved "test" studies of the product performed by the irradiation facility.

Mr. **Akaka**. According to your statement, FSIS has established requirements for irradiation facilities, labeling, quality control, and employee safety. Please summarize these requirements for the record.

Response. Specific requirements for these areas will be developed through notice and comment rulemaking in the near future. Meanwhile FSIS has been using draft guidelines. For facility requirements, we review the layout and design of the entire establishment to assure safe handling of meat.

Labeling for irradiated pork and products containing it must bear a statement to that effect. As a prerequisite to label approval, the establishment must have a partial quality control (QC) program for irradiated product. These QC programs cover all the critical stages in irradiation, including package size and pallet configuration, use of dosimeters, and verification of dose.

Safety of USDA employees will be monitored by the use of safety badges, worn by the personnel. These badges are allotted by the Radiological Safety Staff of the Agricultural Research Service and will be routinely evaluated for radiation exposure levels. In addition, we have requested the safety procedures and guidelines being followed by irradiation facilities to be part of their quality control program.

PART-TIME INSPECTION STAFF

Mr. **Akaka**. On page 4 of your statement, you state that "At the start of the fiscal year we also had nearly 1,100 temporary and part-time employees, but we are now drastically curtailing their use. . . ." Do you find the use of part-time staff to be an efficient and cost-effective means of responding to fluctuating demand for inspection?

Response. We use approximately 500 other-than-permanent staff-years to cover inplant inspection positions. The great majority of these staff-years are for intermittent employees, each of whom may not work more than 1,280 hours in a service year. Intermittents are primarily used to cover the positions of permanent full-time employees who are on leave or in training. They are not routinely used to meet the fluctuating industry demands for inspection service. However, due to staffing problems generated by various resource limitations, they have been used to staff operations when permanent full-time employees are not available. The use of intermittent employees to back up permanent full-time employees is very cost effective.

Mr. **Akaka**. How would the availability of funding for part-time and temporary staff have helped you meet the demand for inspection services in FY 1986?

Response. Very little. Our need is for full-time permanent employees to staff regular in-plant assignments. Throughout fiscal 1986 we have frozen hiring of these employees, but even that has not been enough to meet our budgetary shortfall. The recent introduction of the Streamlined Inspection System has allowed us to make greater savings this year by reducing our use of other than permanent staff. Any relief of our budgetary difficulties will be used first of all to alleviate adverse actions involving current full-time permanent employees and to resume hiring of the permanent employees which the agency needs this year and in the future.

Mr. **Akaka**. What is the proposed budget for part-time and temporary staff in FY 1987?

Response. The FY 1987 budget request for FSIS includes 581 staff years for other than permanent employment with a salary cost of $8,660,000.

USER FEES

Mr. **Akaka**. The President's budget request for FY 1986 proposes that the full federal cost of meat and poultry inspection. The President has made a similar request for user fees in each of the past few fiscal years. Will your legislative proposal require that inspection fees be deposited in a special trust fund or will these fees revert to the general treasury?

Response. User fees will be deposited in a public enterprise revolving fund modeled after that of USDA's Federal Grain Inspection Service. These funds would be used to offset the cost of the program specifically.

Mr. **Akaka**. Dr. Houston, if the President's proposal for meat and poultry inspection fees is not adopted and Congress continues the inspection program as currently authorized, what effect will this have upon your budget requirement in FY 1987?

Response. Without a user fee in fiscal year 1987 the agency would require $365.8 million in appropriated funds under current law.

Mr. **Whitten**. May I say again that I know of no reason to go further with this hearing. You understand this is not that we have lost interest. We realize we have got a continuing situation and are dealing with public health here.

May I say that local requirements usually come from public pressures. I recall that previous testimony shows how many hundreds of thousands of chickens have been destroyed through the years. Yet, since they are going to be cooked they would probably not be dangerous. I have always realized you didn't have to check each carcass, since they are being cooked, but this practice comes from public reaction and your program exists to serve the public.

I realize that with a trillion dollar increase in the debt in the past five years, with interest, due to the greatly expanded military expenditures we have problems. But we have a lot of things we also have to do, and we feel that first and foremost come the basic things such as those which you and your associates provide. I realize, with high unemployment rates in some areas and other programs needs, that it is essential that we keep this work on an even keel.

We do appreciate your being here, Dr. Houston. We appreciate Mr. Tracy being here, too. I was the one who insisted some years ago that we have a representative from the Secretary's office attend our hearings. Formerly, the civil service or career people were having to address policy matters and that led to problems on both sides. We appreciate your being here and, because this hearing is short and to the point, it doesn't mean we lost any interest.

Thank you very much.

Dr. HOUSTON. Thank you, Mr. Chairman.

[The statements for the record follow:]

FOOD SAFETY AND INSPECTION SERVICE

Statement of Dr. Donald L. Houston, Administrator, before the House Subcommittee on Agriculture, Rural Development and Related Agencies.

Mr. Chairman, I am pleased to appear before this Committee to discuss the budget of the Food Safety and Inspection Service (FSIS) for fiscal year 1987. In line with the Administration's philosophy that those directly benefiting from a service should pay for it, we are committed to the course of recovering from the meat and poultry industry the full cost of the inspection service we provide. We will soon submit draft legislation granting the Department authority to collect user fees for Meat and Poultry Inspection.

Before I explain our user fee proposal in detail, I would like to cover some of the other efforts we are making to modernize our program, relieve current budgetary pressures, and serve the public. As you know, our mission is performed in more than 7,000 meat and poultry plants across the country, in every State and territory. That is where most of our employees are; that is where most of our dollars go. While the men and women in our inspection force usually receive no public notice, they are the regulatory system at work.

Last year our inspectors examined more than 120.5 million head of livestock and 4.6 billion birds. They inspected more than 66.4 billion pounds of processed red meat product and 53.1 billion pounds of processed poultry product.

To assure a safe and wholesome meat and poultry supply, they condemned 377,000 red meat carcasses and 47.3 million poultry carcasses that were diseased, contaminated, or otherwise unsafe or unfit for human consumption. They also condemned more than 782 million pounds of processed product and refused entry to nearly 22 million pounds of imported product.

But the inspectors do not stand alone. When they take their stations each day on the slaughter and processing lines they are backed up by headquarters, laboratory, and other field staffs whose activities are also essential to the agency's overall mission of protecting the public. For example, members of these staffs are responsible for developing and testing improvements in the inspection system, including standardized procedures that foster industry productivity.

They detect the presence of residues and other adulterants in the meat and poultry supply. Last year, 248,000 samples were tested. They oversee product recalls and other actions to prevent contaminated product from reaching consumers and to minimize losses to the industry. They investigate any illegal activities in the plants and enforce inspection laws throughout food distribution channels. They review product labels for accuracy. They educate consumers on the safe handling of meat and poultry.

We in FSIS are proud of our role in helping make the nation's food supply the safest in the world. But this year's budget cuts have severely strained our resources so that extraordinary effort will be required if we are to continue to provide industry with needed services and consumers with a safe and wholesome meat and poultry supply.

To put the FY 1987 budget in perspective, it is necessary to look at our current situation and what it means in terms of people and services. In fiscal year 1985, our appropriation was $364.6 million. For fiscal year 1986, our appropriation level was slightly below that, at $361.8 million after a transfer of $.3 million to Departmental management. Gramm-Rudman-Hollings will result in a further reduction of $15.6 million. However, through action detailed below, FSIS has been able to realize $6.5 million in additional savings. Also, on March 4 the President approved the release of $5.7 million in funds already appropriated for FSIS but held in abeyance by Congress pending a formal request from the Administration.

That leaves us with an operating budget of $351.9 million an effective budget reduction of $3.4 million for the year after all the savings are included. We are doing everything possible to absorb this reduction in a way that will least disrupt the industry and least harm our employees.

We have already taken a number of steps to trim our spending:

First, we have severely restricted travel, training, and laboratory contracts.

Second, we are continuing the full hiring freeze that began in November. At the start of the fiscal year we had 9,230 full-time employees, including an in-plant inspection force of 7,541. We expect that by October we will be down to 8,630 full-time employees, with an in-plant force of 7,020.

At the start of the fiscal year we also had nearly 1,100 temporary and part-time employees, but we are now drastically curtailing their use, mainly through a new streamlined inspection system that reduces by more than 400 the number of poultry inspection positions.

But these measures, stringent as they are, are simply not enough. They will account for only $6.5 million of the $15.6 million reduction mandated for this year by Gramm-Rudman-Hollings. Even with the recently released $5.7 million, we must cut our spending by an additional $3.4 million. To achieve this, we are forced to turn to cutting funds allocated for salaries. While we would prefer to do otherwise, the fact is that FSIS is a very labor-intensive agency, with about 85 percent of the budget going for salaries and benefits.

Therefore, we are proposing a three-day furlough for the entire Agency. To avoid disrupting FSIS work schedules and industry production, we intend to use the three remaining Federal holidays in the fiscal year as the furlough days.

In my more optimistic moments, I like to think it is possible to carry out these cost-cutting measures while maintaining the same high level of service we have in the past -- with an inspection force that is properly trained, properly supervised, and properly supported. However, our task is made even more difficult by the fact that at the same time our budget is shrinking, the meat and poultry industry is expanding.

For several years we have sought to streamline and modernize our program to keep pace with industry's growth. Given our budget situation now, the need to alter our traditional ways of operating is more urgent than ever. We have to accomplish more with less -- without sacrificing either public protection or the overall integrity of inspection.

With that analysis of where we stand this year, let me turn now to FY 1987. Our current-law budget request for next year is $365.8 million, or slightly more than this year's level before the Gramm-Rudman-Hollings cut. The FY 1987 request allots $210.6 million for slaughter inspection, $89.8 million for processing inspection, $7.8 million for import-export inspection, $21.2 million for laboratory services, and $36.4 million for grants to states.

MODERNIZING INSPECTION

In keeping the FY 1987 budget as lean as possible, we must continue to streamline and modernize our inspection system. Urging us on is a report from the National Academy of Sciences that we commissioned as part of our five-point plan to strengthen meat and poultry inspection. We wanted an outside body of scientists to take a long, hard, impartial look at our program, and that is exactly what the Academy did.

Its report, delivered last July, endorsed the direction we have taken but pulled no punches in calling for us to go still further. The Academy's recommendations will serve as a blueprint as we proceed with our efforts to streamline and modernize our program.

Supplying still more motivation for change is the industry expansion I referred to earlier. This is particularly true in the poultry industry, where increased consumer demand is prompting plants to add lines and shifts -- and request additional inspection.

New inspection systems

Three new poultry inspection systems are designed to help us deal with the situation. Two permit efficient and effective inspection at relatively high linespeeds. This was achieved by shifting responsibility for trimming decisions to the plants, with FSIS then verifying that the trimming was done properly.

Some of those same successful concepts have been applied in the new streamlined inspection system I referred to earlier. It is now mandatory in all plants that slaughter young chickens. By reducing from three to two the number of inspectors required to handle a line, it is possible to eliminate 473 positions. The surplus inspectors with permanent, full-time status will be offered reassignment elsewhere; those with intermittent status will not be retained.

FSIS is also moving to improve inspection procedures in red meat plants. We continue to test applications of quality control concepts in the slaughter and processing inspection of cattle and swine. Also, the streamlined inspection procedures that were begun in high-volume hog plants several years ago have now been extended to all swine slaughter plants.

Food technologist series

But just improving inspection procedures is not enough. FSIS must also keep up with technology by requiring more of its inspection force: expertise in such disciplines as statistics, general food science, microbiology, chemistry. We have announced a plan to phase food technologists into processing inspection over the next 10 years. Budget restrictions, however, will prevent us from implementing our plan this year. If we can, we will in FY 1987. In addition, we want to continue the special training we instituted last year in total quality control inspection of processed products.

Import inspection

In the area of import inspection, the Agency is also introducing changes to increase efficiency. There, too, we must find ways to operate within severe budget and staffing limits, yet not compromise our high standards of consumer protection. These are among the changes we have made or plan to make:

- When product is rejected, we now require that every container be marked "U.S. Refused Entry." This frees our inspectors from the need for continuous physical control of the product, keeps rejected product out of domestic marketing channels, and notifies other countries that the lot was turned away from a U.S. port.

- We will phase out the practice of allowing imported product to bypass inspection at ports of entry, being inspected instead at another location by domestic inspectors. We believe that import inspection requires special expertise and should be performed only by import inspectors, who are stationed at ports of entry. This also increases our efficiency.

- We have reduced monitoring of imported product from plants with the best compliance records because our data showed that closely monitoring their lots was unnecessary and added nothing to consumer protection. It also used resources that could focus instead on product from problem plants.

USING SCIENCE AND TECHNOLOGY

Advances in science and technology constantly present our Agency with challenges and opportunities. When the industry we regulate wants to adopt new techniques, we must be prepared to accept them if the public will benefit. And we ourselves must always seek to expand our knowledge and our capability. We need more residue tests; more and better computer programs; better ways to control bacteria and parasites.

Irradiation

Recently we approved the use of low-dose gamma irradiation in federally inspected plants to control trichina in fresh pork cuts. Although only a small amount of the fresh pork supply is likely to be irradiated in the near future, the technology is there. When the Food and Drug Administration pronounced the process safe, FSIS steered a reasonable and prudent course, carefully considering requirements for facilities, labeling, quality control, and employee safety before granting approval.

Salmonella reduction initiatives

Unfortunately, we do not yet have a satisfactory method for reducing bacterial contamination of meat and poultry. Two years ago, an international symposium on salmonella was held in recognition of the seriousness of the problem worldwide.

It concluded that all foods of animal origin are potentially contaminated by salmonella, and that contamination levels cannot soon be expected to change greatly.

Further recognition of the problem comes from the Centers for Disease Control, which reports that the incidence of salmonellosis has almost doubled since 1968. Our own sampling data on meat and poultry contamination indicates that about 37 percent of broilers, 5 percent of ground beef, and 12 percent of pork sausage contain salmonella bacteria.

FSIS has been working on the problem for many years, and salmonella control remains our major research priority. We are looking at procedures such as sanitizing sprays and automatic carcass-washing systems that could be implemented in meat and poultry plants to destroy salmonella.

We are also considering marketplace incentives to encourage industry to adopt the latest salmonella control technology. For example, companies that can reduce salmonella bacteria levels might be allowed to publicize this accomplishment through their labels and advertisements.

Rapid screening advances

One of the greatest technical challenges we face is developing quick, inexpensive, easy-to-use tests that can be run right at the plant to establish the presence or absence of residues. With such methods, problem carcasses can be identified and retained while laboratory confirmation of the findings is awaited. Contaminated meat is prevented from reaching the public, and producers and shippers have an added incentive to be sure animals are residue-free at slaughter.

A few years ago, the Agency introduced a rapid screening test for antibiotics. It was developed for use on carcasses in plants and then adapted for live animals as well. When the test was modified further and used to check for sulfa in very young calves, the violation rate dropped from more than seven percent to less than two percent.

Now, FSIS has developed a new rapid method for sulfa, the Sulfa OnSite Test, or SOS. Field trials showed that it works well for screening groups of hogs at the slaughterhouse, and the Agency has announced plans for a new regulatory program that could include in-plant testing of hogs for sulfa residues. In the meantime, SOS and commercially available kits are proving useful for farm testing of hogs and feed.

CORRECTING PROBLEMS

FSIS, like any other large program, is subject to occasional problems of organization or operation. And the huge meat and poultry industry -- like all other industries -- suffers from the actions of a few careless or irresponsible members. Both situations can damage the confidence of consumers in the country's meat and poultry supply. I would like to describe now our recent efforts to deal with such problems, and also call your attention to legislative remedies we have proposed.

Southern California review

During FY 1985, employee concerns about the integrity of the meat and poultry inspection program in Southern California prompted us to order a large-scale, internal investigation. The review turned up significant weaknesses in the program. The most significant were in the areas of organizational structure, supervision, staffing, and program effectiveness.

FSIS sent a special team to Southern California to correct the problems. It improved the distribution of inspectors' workloads, corrected deficiencies in roast beef operations, improved supervisors' management practices, and recommended that two plants be placed under Intensified Regulatory Enforcement (IRE).

We are now conducting a follow-up review, which began this month. We want to look at the progress that has been made and identify any additional steps that should be taken.

Enforcement measures

FSIS employs the tool known as Intensified Regulatory Enforcement to deal with plants that consistently cannot or will not follow procedures assuring safe and wholesome meat and poultry products. When a plant is assigned IRE status, the Agency develops a specific action plan to bring about improvement.

The program was begun three years ago. Since then, 11 plants have upgraded their operations to a satisfactory level. At the end of 1985, 13 plants were operating under IRE.

In cases where plant officials have been convicted in criminal proceedings, FSIS can also withdraw inspection services. During FY 1985, the Agency took this administrative action against several slaughtering and processing companies, including one in Pennsylvania that sold uninspected meat for human consumption and one in Ohio that refused to destroy adulterated product a USDA inspector had condemned.

We also initiated 1,200 detention actions involving nine million pounds of suspect meat and poultry products and monitored 13 recalls of nearly 700,000 pounds. Another 90,700 pounds were seized in five court actions initiated by the Agency.

Legislative remedies

However, many of the enforcement actions we can take are possible only through a laborious process that often is less than effective in dealing with the more difficult cases. We have long recognized the need for additional enforcement authority. A two-part legislative proposal submitted to Congress last August would increase the Department's authority to withdraw or refuse inspection.

Denying inspection and thus preventing a plant from operating is the most effective sanction we can impose. We must have more authority to use that sanction to protect the public and to assure that no plant is permitted to gain competitive advantage through prohibited practices.

The second part of our legislative proposal would amend the inspection laws to permit varying the intensity of inspection in certain processing plants. It is a change we have sought for several years in response to major advances in processing technology and the need to increase efficiency in the inspection program.

Now, given our challenging budget situation, it is even more essential that we be able to decide how often and how closely each processing plant should be inspected, based on its compliance history and other factors. We believe it is neither necessary nor practical for every such operation to be visited every day by a USDA inspector. We must have the flexibility to allocate our dwindling resources more efficiently and more economically than the laws in their present form permit.

Our legislative package combines into one bill the two similar and complementing proposals that were introduced but not acted on in the last Congress. If enacted, it is expected to yield cumulative savings of $63 million over the next five years. We will actively continue to seek introduction and passage of the bill.

COLLECTING USER FEES

I will return now to the subject of user fees for meat and poultry inspection, another legislative remedy for deficits. User fees were part of the President's budget request last year but were not acted on by Congress.

Within FSIS we have labored for months over a user fee proposal. We considered several different ways of implementing fees and evaluated each with the following three questions in mind:

> Would it fairly allocate the cost of inspection among various segments of the industry?

Could it be administered efficiently?

Would it maintain the Agency's credibility?

Describing our task as a major challenge would be an understatement, but I think we have arrived at a plan that is as fair and efficient as possible, and that will sustain public confidence. Compared with the other options we considered, it provides the easiest method of verifying industry records, it disrupts production and inspection activities least, and it costs least to implement.

With your permission, Mr. Chairman, I would like to submit a detailed explanation of the plan and ask that it be made part of the record.

General Characteristics

Here are the fundamentals of the plan:

Provided Congress gives us the necessary statutory authority, our user fee program will recover the full cost of Agency operations, including administrative costs and support services. Separate fees will be established for red meat, poultry, and import inspection. In addition, the Agency will continue to charge an hourly rate for overtime inspection activities.

Federal funding of grants to State inspection programs will be eliminated at the start of the user fee program. I will return to this later and discuss the implications for the States.

The final general element of the plan that I want to mention is very important, and I cannot stress it too strongly. No changes in inspection methods will be made to accommodate user fees. In other words, the basic integrity of our program will be unaffected.

This is how the user fee plan will work:

Fees for slaughter and processing

User fees for domestic slaughter and processing activities will be assessed on a per carcass basis and will be billed to the slaughter location. The estimated per carcass charges are approximately $3.24 for cattle, 75 cents for calves, 90 cents for hogs, 2 cents for young chickens, and 11 cents for turkeys. The actual fees, of course, will be adjusted annually to meet the estimated inspection expenses of that year.

It may appear that under this system of charging to the slaughter operation fees for both slaughter and processing, the processing sector will not be paying its full share of inspection costs. I would argue, however, that the system allows the market to function naturally, passing costs along from slaughterer to processor and on through the marketing chain. The result will be an equitable distribution of the cost of inspection.

Fees for import inspection

User fees for import inspection will be assessed on a basis of hours of inspection and billed to the importer. As is currently the case, the intensity of inspection will vary according to a foreign plant's compliance history. The expected charge per hour will be $48.47. It covers not only basic inspection costs, but also all other expenses associated with our import inspection program -- including foreign plant reviews.

Funding mechanism

Adoption of user fees will mean that annual congressional appropriations for FSIS will no longer be required. The Secretary of Agriculture will be responsible for establishing and implementing the user fee system, and income and expenditure reports will be submitted to the Office of Management and Budget as part of the normal budget process.

Funds collected through user fees will be deposited into an FSIS account in the U.S. Treasury, and will then be available to the Agency. The following stages comprise the funding cycle:

FSIS performs inspection services, and inspectors complete the required forms. The Agency reports billing information to the National Finance Center, which bills the plants and importers according to the user fee rate established. They pay the fees, the funds are deposited in the FSIS Treasury account, and FSIS draws on the account to pay its expenses.

We expect that only about 32 additional positions will be required for administering the user fee system, and that the annual cost of the system will be only about $1.5 million. The reason is that it is very economical to assess user fees at the slaughter location and base them on both slaughter and processing. The administrative cost would rise dramatically if fees were assessed at both slaughter and processing operations: according to our calculations, nearly $7.4 million a year and 163 additional staff years would be required.

A fee based on hours of inspection would also be economical to administer -- one reason that system was selected for import inspection -- but for domestic inspection would place small plants at an extreme disadvantage. The Agency generally can conduct inspection far more efficiently in larger plants where inspectors can examine more product in less time. Consequently, both patrol plants and small plants with a full-time inspector would usually pay more per pound of product for inspection on an hourly basis. In some cases, the hourly rate for inspection might even exceed the plant's hourly rate of profit, thereby forcing the plant to close down.

Impact on States

I promised earlier to return to the subject of the impact user fees will have on States. Currently, half the cost of each State-operated inspection program is funded by FSIS. In FY 1985, State grants totaled $33.2 million. Since that Federal funding will be eliminated, the 27 States that now operate their own program will have to increase State appropriations or initiate their own user fee programs. At this point, we just do not know how the States will react. But if any choose to abandon their State programs, the Federal government will have to pick up the burden.

CONCLUSION

That concludes my remarks on the user fee system, Mr. Chairman, and my prepared statement, as well. I will be glad to answer any questions you or other members of the Committee may have. I appreciate this opportunity to appear before you.

FOOD SAFETY AND INSPECTION SERVICE

Purpose Statement

The Food Safety and Inspection Service was established on June 17, 1981, by Secretary's Memorandum No. 1000-1 issued pursuant to Reorganization Plan No. 2 of 1953 (7 U.S.C. 2201).

The major objective of the Agency is to ensure that the Nation's commercial supply of meat and poultry products is safe, wholesome, and correctly labeled and packaged, as required by the Federal Meat Inspection Act and the Poultry Products Inspection Act.

The Meat and Poultry Inspection Program of the Food Safety and Inspection Service provides inplant inspection of all domestic establishments preparing meat or poultry products for sale or distribution in commerce; reviews foreign inspection systems and establishments that prepare meat or poultry products for export to the United States; and provides technical and financial assistance to States which maintain meat and poultry inspection programs equal to that of the federal inspection program.

During 1985 the Agency maintained central offices in the Washington metropolitan area, five regional offices, 27 area offices, and a nationwide network of inspectors in approximately 7,200 establishments (including official import inspection facilities) in 50 States, Puerto Rico, American Samoa, Guam, and the Virgin Islands. Much of the work is conducted in cooperation with Federal, State and municipal agencies, as well as private industry. On September 30, 1985, the Agency employment totaled 9,230 permanent full-time employees and 1,054 other employees. Of these, 668 permanent full-time employees and 71 other employees were located in the central offices, and 363 permanent full-time employees and 19 other employees were in area and regional offices. The balance of 8,199 permanent full-time employees and 964 other employees were in field locations.

FOOD SAFETY AND INSPECTION SERVICE

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Food Safety and Inspection Service						
Salaries and Expenses	$364,308,000	9,614	$361,752,000	9,488	$365,841,000	9,431
Obligations under other USDA Appropriations:						
APHIS for blood samples (MPI)	900,000	—	900,000	—	900,000	--
Total, Agriculture Appropriations	365,208,000	9,614	362,652,000	9,488	366,741,000	9,431
Non-Federal Funds:						
Reimbursements:						
Meat and Poultry Inspection	38,953,049	1,033	39,100,000	1,008	39,100,000	1,008
Trust Funds:						
Meat and Poultry Inspection	786,257	25	825,000	29	825,000	29
Total Non-Federal Funds	39,739,306	1,058	39,925,000	1,037	39,925,000	1,037
Total, Food Safety and Inspection Service	404,947,306	10,672	402,577,000	10,525	406,666,000	10,468

Full-Time Equivalent Staff Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	9,719	9,600	9,543
Non-ceiling	953	925	925
Total	10,672	10,525	10,468

FOOD SAFETY AND INSPECTION SERVICE

Permanent Positions by Grade and Staff-Year Summary

1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
ES- 6	2	--	2	2	--	2	2	--	2
ES- 5	2	--	2	2	--	2	2	--	2
ES- 4	6	5	11	6	5	11	6	5	11
ES- 3	2	--	2	2	--	2	2	--	2
ES- 2	2	--	2	2	--	2	2	--	2
GS/GM-15	32	8	40	32	8	40	32	8	40
GS/GM-14	87	38	125	87	38	125	87	38	125
GS/GM-13	162	260	422	162	260	422	162	258	420
GS-12	84	825	909	84	825	909	83	822	905
GS-11	57	443	500	57	443	500	56	437	493
GS-10	2	167	169	2	167	169	2	167	169
GS- 9	42	2,481	2,523	42	2,481	2,523	40	2,475	2,515
GS- 8	9	859	868	9	859	868	9	857	866
GS- 7	64	3,346	3,410	64	3,346	3,410	63	3,338	3,401
GS- 6	57	38	95	57	38	95	56	36	92
GS- 5	64	494	558	64	494	558	63	480	543
GS- 4	44	92	136	44	92	136	42	89	131
GS- 3	19	16	35	19	16	35	18	15	33
GS- 2	4	4	8	4	4	8	4	4	8
Ungraded Positions	6	16	22	6	16	22	6	16	22
Total Permanent Positions	747	9,092	9,839	747	9,092	9,839	737	9,045	9,782
Staff-Years:									
Ceiling	720	8,999	9,719	720	8,880	9,600	710	8,833	9,543
Non-ceiling	2	951	953	2	923	925	2	923	925
TOTAL	722	9,950	10,672	722	9,803	10,525	712	9,756	10,468

FOOD SAFETY AND INSPECTION SERVICE

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
	Headquarters	$21,764,124	$21,653,000	$21,552,000
	Field	223,797,508	222,734,000	221,695,000
11	Total Personnel compensation	245,561,632	244,387,000	243,247,000
12	Personnel benefits	36,526,381	37,686,000	38,197,000
13	Benefits for former personnel	917,444	918,000	956,000
	Total Personnel Compensation and Benefits	283,005,457	282,991,000	282,400,000
Other Objects:				
21	Travel	18,312,736	17,741,000	19,468,000
22	Transportation of things	1,008,262	971,000	1,011,000
23.2	Rental Payments to others	127,000	127,000	132,000
23.3	Communications, utilities and miscellaneous charges	5,694,532	6,695,000	6,969,000
24	Printing and reproduction	1,540,291	1,472,000	1,532,000
25	Other services	15,013,269	13,058,000	13,905,000
26	Supplies and materials	2,798,325	1,853,000	1,929,000
31	Equipment	3,458,234	1,918,000	1,997,000
41	Grants, subsidies, and contributions	33,092,976	34,856,000	36,425,000
42	Insurance claims and indemnities	70,121	70,000	73,000
43	Interest and dividends	360	--	--
	Total Other Objects	81,116,106	78,761,000	83,441,000
	Total Direct Obligations	364,121,563	361,752,000	365,841,000
Position Data:				
	Average Salary, ES positions	$65,991	$65,991	$65,991
	Average Salary, GS positions	$25,595	$25,840	$25,877
	Average Grade, GS positions	8.52	8.52	8.52

FOOD SAFETY AND INSPECTION SERVICE

The Estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Salaries and Expenses:

For necessary expenses to carry on services authorized by the Federal Meat Inspection Act, as amended, and the Poultry Products Inspection Act, as amended, [$370,000,000, of which $5,735,000 shall be available only to the extent an official budget request is transmitted to the Congress] $365,841,000: Provided, That this appropriation shall be available for field employment pursuant to section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), and not to exceed $75,000 shall be available for employment under 5 U.S.C. 3109: Provided further, That this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but the cost of altering any one building during the fiscal year shall not exceed 10 per centum of the current replacement value of the building.

SALARIES AND EXPENSES - CURRENT LAW

Appropriation Act, 1986		$364,265,000
Budget Estimate, 1987		365,841,000
Increase in Appropriation		+1,576,000
Adjustments in 1986:		
Appropriation Act, 1986	$364,265,000	
Less Pro-Rata Reduction, P.L. 99-190	-2,186,000	
Net Appropriations	362,079,000	
Transfer to Departmental Administration and Office of Governmental and Public Affairs for reimbursable activities a/	-327,000	
Adjusted base for 1986		361,752,000
Budget estimate, Current Law, 1987		365,841,000
Increase over adjusted 1986		+4,089,000

a/ A transfer of $270,000 to Departmental Administration and $57,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SALARIES AND EXPENSES - PROPOSED LEGISLATION

Budget Estimate, Current Law, 1987	$ 365,841,000
Change due to proposed legislation:	
Compliance Based Processing Inspection	-2,000,000
User Fees	-363,841,000
Net Request, President's 1987 Budget Request	--

SUMMARY OF INCREASES AND DECREASES - CURRENT LAW
(On basis of adjusted appropriation)

Item of Change	1986 Estimated b/	Program Changes	1987 Estimated
Slaughter Inspection	$208,956,000	+$1,653,000	$210,609,000
Processing Inspection	89,101,000	+731,000	89,832,000
Import-Export Inspection	7,730,000	+25,000	7,755,000
Laboratory Services	21,109,000	+111,000	21,220,000
Grants-to-States	34,856,000	+1,569,000	36,425,000
Total Available	361,752,000	+4,089,000	365,841,000

b/ The distribution by Activity in the 1[illegible] Estimated column has been adjusted to reflect estimated needs.

PROJECT STATEMENT - CURRENT LAW
(On basis of adjusted appropriation)

Project	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
Meat and Poultry Inspection:							
(a) Slaughter Inspection....	$209,751,080	6,592	$208,956,000	6,557	+$1,653,000(1)	$210,609,000	6,521
(b) Processing Inspection...	90,294,415	2,478	89,101,000	2,374	+731,000(2)	89,832,000	2,358
(c) Import-Export Inspection	7,870,261	163	7,730,000	164	+25,000(3)	7,755,000	163
(d) Laboratory Services.....	23,112,831	381	21,109,000	393	+111,000(4)	21,220,000	389
(e) Grants-to-States........	33,092,976	—	34,856,000	—	+1,569,000(5)	36,425,000	—
Total, Meat and Poultry Inspection...............	364,121,563	9,614	361,752,000	9,488	+4,089,000	365,841,000	9,431
Unobligated balance lapsing	186,437	—	—	—	—	—	—
Total available or estimate.	364,308,000	9,614	361,752,000	9,488	+4,089,000	365,841,000	9,431
Transfer to Departmental Administration and Office of Governmental and Public Affairs..................	+327,000	—	+327,000				
Total Appropriation.........	364,635,000	9,614	362,079,000				

EXPLANATION OF PROGRAM

The major objective of the Food Safety and Inspection Service is to ensure that the Nation's commercial supply of meat and poultry products is safe, wholesome, and correctly labeled and packaged.

The Meat and Poultry Inspection program is responsible for uniformly applying inspection procedures and standards for sanitation, humane slaughter, facilities and equipment, and product labeling at all establishments under Federal inspection. It is also responsible for assessing the effectiveness of State inspection programs to assure that standards at least equal to those under the Federal Meat Inspection Act and the Poultry Products Inspection Act are applied to meat and poultry establishments under State jurisdiction. Further, the program is responsible for reviewing foreign inspection systems and plants that export meat and poultry products to the United States, and inspecting imported product at ports of entry.

The Laboratory Services program supports meat and poultry inspection through the scientific examination of meat and poultry products for disease, contamination, or other forms of adulteration.

Legislation to amend the continuous inspection requirements of the inspection acts will be submitted for fiscal year 1987. The proposal, Compliance-based Processing Inspection, would grant the Secretary discretion to schedule inspection at processing plants based upon such criteria as the nature of the product produced and the plants' compliance histories.

USDA will also submit legislation to implement across-the-board user fees to recover the full year cost of agency operations.

INSPECTION DATA

	1985 Actual	1986 Estimated	1987 Estimated
Federally inspected establishments:			
Slaughter plants	466	460	455
Processing plants	5,005	5,035	5,060
Combination slaughter and processing plants	1,463	1,455	1,460
Import establishments	176	176	176
Federally inspected production (millions of pounds):			
Meat slaughter	36,193	36,500	36,900
Meat processing	66,467	67,000	67,500
Poultry slaughter	22,980	23,500	24,200
Poultry processing	53,100	55,700	57,000
Import/Export activity (millions of pounds):			
Meat and poultry imported	2,370	2,400	2,400
Meat and poultry exported	1,896	1,900	2,000
Imports refused entry	22	22	22
States and territories with cooperative agreements (end of year):			
Intrastate inspection	27	27	27
Talmadge-Aiken inspection	20	20	20
Number of slaughter and/or processing plants (excludes exempt plants)	3,833	3,800	3,800
Pounds inspected slaughter and processing (millions)	3,554	3,600	3,600
Compliance activities:			
Hazardous product detained (millions of pounds)	9	8	8
Compliance reviews/	51,957	52,000	52,000
Detention actions	1,209	1,100	1,100
Laboratory services (samples analyzed):			
Food chemistry	93,249	83,900	79,300
Food microbiology	14,460	13,000	11,700
Chemical residues	34,539	31,100	28,000
Antibiotic residues	105,981	45,000	40,500
Pathology samples	9,972	9,000	8,100

GAO Reports

Number	Date Issued	Date Completed	Description
RCED-83-58	5/4/83	--	Federal Regulation of Meat and Poultry Products - Increased Consumer Protection and Efficiencies Needed.
RCED-84-23	10/21/83	--	USDA's Oversight of State Meat and Poultry Inspection Programs Could be Strengthened.
RCED-83-81	6/15/83	7/01/85	Improved Management of Import Meat Inspection Program Needed.

OIG Reports

Number	Date Issued	Date Completed	Description
38606-1-NY	7/27/84	8/12/85	The FSIS Meat & Poultry Inspection Reporting System Needs to be Strengthened.

OIG Audits of State Departments of Agriculture:

Number	Date Issued	Date Completed	State
38092-3-SF	8/22/85	--	Hawaii
38-92-AT	8/1/85	--	Georgia
38092-16-HY	8/19/85	--	Pennsylvania
38-92-5-AT	7/31/85	--	Alabama
38-92-7-AT	7/19/85	8/22/85	North Carolina
3892-18-HY	6/27/85	--	Maryland
50560-17-AT	6/4/85	6/4/85	Georgia
38092-2-SF	3/5/85	6/17/85	California
38092-4-AT	9/28/84	--	Florida
3892-3-AT	9/26/84	6/5/85	Mississippi
42803-4-HY	8/31/84	--	West Virginia

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net increase of $1,653,000 for Slaughter Inspection ($208,956,000 available in 1986) consisting of:

(a) A decrease of $895,000 achieved by streamlining Agency operations.

Need for Change. Budgetary pressures engendered by the urgent need to reduce Federal spending will require maximum economies in operations at both headquarters and field locations.

Nature of Change. The Agency will continue its review of operations at all levels to streamline and eliminate non-essential services where savings can be accomplished without reducing the effectiveness of the inspection program.

(b) An increase of $967,000 to provide for employee training.

Need for Change. Changes in inspection procedures will require retraining of personnel to handle new duties. The retraining is required to maintain inspection program effectiveness during the changes necessitated by immediate cost reduction efforts.

Nature of Change. Program changes such as the elimination of certain inplant positions and the increasing use of food technologists in processing inspection will require a redefinition of many inspection jobs. The personnel affected by these changes will be trained in the new techniques through a combination of on-the-job training and formal training courses. The Agency will also expand training activities to assure a continual high level of effectiveness during a period of declining staff.

(c) An increase of $1,581,000 to offset rising costs.

Need for Change. The Federal contribution toward employee retirement as well as costs of goods and services provided by the private sector, such as airline tickets, hotel accommodations, laboratory equipment, supplies, and communications, are expected to continue to rise in 1987. Without additional funds to meet these costs the Agency will have to reduce its inspection force by over 100 positions to release funds necessary to meet higher costs.

Nature of Change. The increase will enable the agency to maintain inspection effectiveness.

(2) A net increase of $731,000 for Processing Inspection ($89,101,000 available in 1986) consisting of:

(a) A decrease of $382,000 achieved by streamlining Agency operations.

(b) An increase of $415,000 to provide for employee training.

(c) An increase of $698,000 to offset rising costs.

For these items, the need for change and nature of change have been discussed under Slaughter Inspection.

(3) A net increase of $25,000 for Import-Export Inspection ($7,730,000 available in 1986) consisting of:

(a) A decrease of $33,000 achieved by streamlining Agency operations.

(b) An increase of $58,000 to offset rising costs.

For these items, the need for change and nature of change have been discussed under Slaughter Inspection.

(4) A net increase of $111,000 for Laboratory Services ($21,109,000 available in 1986) consisting of:

(a) A decrease of $90,000 achieved by streamlining Agency operations.

(b) An increase of $201,000 to offset rising costs.

For these items, the need for change and nature of change have been discused under Slaughter Inspection.

(5) An increase of $1,569,000 for Grants to States ($34,856,000 available in 1986) to offset increasing costs in the State Programs.

Need for Change. State-operated inspection programs are subject to increased costs for travel, training, and other goods and services. These are estimated to increase by almost five percent in 1987. In addition, salary increases of over five percent are expected for many state government employees. If USDA is unable to support fifty percent of the cost of these programs in fiscal year 1987, some States could be forced to terminate their programs. In these cases the Federal government is required to assume full responsibility for inspection in these states.

Nature of Change. Grants are increased by 4.5 percent over fiscal year 1986 levels.

Summary of Budget Changes by Activity
(Dollars in Thousands)

	FY 1986 Estimate	Stream-lining	Training	Rising Costs	Total Change	FY 1987 Request
Slaughter...........	$208,956	-$895	$967	$1,581	$1,653	$210,609
Processing..........	89,101	-382	415	698	731	89,832
Import/Export.......	7,730	-33	--	58	25	7,755
Laboratory Services.	21,109	-90	--	201	111	21,220
Grants to States....	34,856	--	--	1,569	1,569	36,425
FSIS Total........	361,752	-1,400	1,382	4,107	4,089	365,841

Food Safety and Inspection Service
Proposed for Later Transmittal, Proposed Legislation

SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION
(Dollars in thousands)

	1987			
	Current Law	Compliance-Based Inspection	User Fees	President's Request
Slaughter Inspection........	$210,609	--	-$210,609	--
Processing Inspection.......	89,832	-$2,000	-87,832	--
Import/Export Inspection....	7,755	--	-7,755	--
Laboratory Services.........	21,220	--	-21,220	--
Grants to States............	36,425	--	-36,425	--
Total Available.........	365,841	-2,000	-363,841	--

Explanation of Proposed Legislation

Legislation to amend the continuous inspection requirements of the inspection acts will be submitted during fiscal year 1986. The proposal, Compliance-based Processing Inspection, would grant the Secretary discretion to schedule inspection at processing plants based upon such criteria as the nature of the product produced and the plants' compliance histories.

USDA will also submit legislation to strengthen Federal enforcement powers under the inspection acts and to implement across-the-board user fees to recover the full cost of agency operations except for the Grants-to-States Program. Separate legislation will be submitted permitting States to implement their own user fee programs.

Food Safety and Inspection Service
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
1985 and Estimated 1986 and 1987

State	FY 1985		FY 1986 Estimate		FY 1987 Estimate	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Alabama.............	$11,695,872	371	$11,620,000	366	$11,751,000	364
Alaska..............	356,532	0	354,000	0	358,000	0
Arizona.............	1,614,565	37	1,604,000	37	1,622,000	36
Arkansas............	16,603,409	562	16,495,000	555	16,682,000	551
California..........	20,216,773	614	20,085,000	606	20,312,000	602
Colorado............	4,861,330	144	4,830,000	142	4,884,000	141
Connecticut.........	1,528,512	42	1,519,000	41	1,536,000	41
Delaware............	3,757,118	127	3,733,000	125	3,775,000	125
District of Columbia	40,353,773	621	40,091,000	613	40,544,000	609
Florida.............	5,878,339	125	5,840,000	123	5,906,000	123
Georgia.............	21,573,401	624	21,433,000	616	21,675,000	612
Hawaii..............	1,040,159	4	1,033,000	4	1,045,000	4
Idaho...............	2,082,791	65	2,069,000	64	2,093,000	64
Illinois............	9,688,342	216	9,625,000	213	9,734,000	212
Indiana.............	6,015,343	129	5,976,000	127	6,044,000	127
Iowa................	13,160,519	371	13,075,000	366	13,223,000	364
Kansas..............	8,472,410	233	8,417,000	230	8,512,000	229
Kentucky............	3,938,074	115	3,912,000	113	3,957,000	113
Louisiana...........	4,560,250	93	4,531,000	92	4,582,000	91
Maine...............	1,247,865	38	1,240,000	37	1,254,000	37
Maryland............	9,305,092	256	9,245,000	253	9,349,000	251
Massachusetts.......	2,760,630	81	2,743,000	80	2,774,000	79
Michigan............	7,120,474	226	7,074,000	223	7,154,000	222
Minnesota...........	10,051,392	314	9,986,000	310	10,099,000	308
Mississippi.........	7,965,067	231	7,913,000	228	8,003,000	227
Missouri............	11,099,684	328	11,028,000	324	11,152,000	322
Montana.............	1,741,911	48	1,731,000	47	1,750,000	47
Nebraska............	8,845,800	273	8,788,000	269	8,887,000	268
Nevada..............	374,861	11	372,000	11	377,000	11
New Hampshire.......	586,690	17	583,000	17	589,000	17
New Jersey..........	4,895,945	143	4,864,000	141	4,919,000	140
New Mexico..........	1,149,870	25	1,142,000	25	1,155,000	25
New York............	10,256,047	303	10,189,000	299	10,304,000	297
North Carolina......	12,426,956	341	12,346,000	336	12,486,000	334
North Dakota........	909,277	27	903,000	27	914,000	26
Ohio................	9,265,747	177	9,206,000	175	9,309,000	174
Oklahoma............	4,286,628	86	4,259,000	85	4,307,000	84
Oregon..............	2,880,373	83	2,862,000	82	2,894,000	81
Pennsylvania........	15,714,877	459	15,613,000	453	15,789,000	450
Rhode Island........	484,313	14	481,000	14	487,000	14
South Carolina......	3,956,031	105	3,930,000	104	3,975,000	103
South Dakota........	2,794,269	81	2,776,000	80	2,807,000	79
Tennessee...........	6,458,868	189	6,417,000	187	6,489,000	185
Texas...............	25,146,528	631	24,983,000	623	25,265,000	619
Utah................	1,871,141	44	1,859,000	43	1,880,000	43
Vermont.............	449,160	7	446,000	7	451,000	7
Virginia............	7,352,113	208	7,304,000	205	7,387,000	204
Washington..........	3,845,424	117	3,820,000	115	3,864,000	115
West Virginia.......	1,427,173	26	1,418,000	26	1,434,000	26
Wisconsin...........	6,950,218	160	6,905,000	158	6,983,000	157
Wyoming.............	122,523	3	122,000	3	123,000	3
Guam................	33,508	1	33,000	1	34,000	1
Puerto Rico.........	1,954,074	57	1,941,000	56	1,963,000	56
Samoa...............	30,791	1	31,000	1	31,000	1
Virgin Islands......	76,237	2	76,000	2	77,000	2
Foreign Countries...	886,494	8	881,000	8	891,000	8
Total Available or Estimate.....	364,121,563	9,614	361,752,000	9,488	365,841,000	9,431

FOOD SAFETY AND INSPECTION SERVICE

STATUS OF PROGRAM

The Food Safety and Inspection Service (FSIS) administers a national meat and poultry inspection program pursuant to the Federal Meat Inspection Act and the Poultry Products Inspection Act. These acts require ante-mortem and post-mortem inspection of domestic livestock and poultry, and the inspection during further processing of meat and poultry products. The major objective of the meat and poultry inspection program is to assure that meat and poultry products moving in commerce are wholesome, unadulterated, and properly labeled and packaged. The meat and poultry inspection program has been consistently guided by four principles:

1. Public protection is the primary objective of the inspection program.
2. Inspection should be risk-based. Agency resources should be allocated according to the risks of a particular product, process, or producer.
3. The inspection program should take full advantage of the available technologies to promote industrial productivity and inspection efficiency.
4. The government and the meat and poultry industry should share responsibility for protecting the public.

USDA has used these principles in bringing about major reforms in slaughter and processing inspection, and will continue to do so in the future.

MEAT AND POULTRY INSPECTION

Current Activities: Program responsibilities include:

1. Inspecting before and after slaughter those birds and animals intended for use as food for humans and supervising the further processing of meat and poultry products.

2. Assuring that meat and poultry products are safe and properly labeled, and preventing the movement or sale in commerce of any meat or poultry products which are unwholesome, adulterated or mislabeled.

3. Reviewing and assessing the effectiveness of State inspection programs to assure that standards at least equal to those under the Federal Acts are applied to meat and poultry plants under State jurisdiction.

4. Reviewing and assessing foreign inspection systems and plants that export meat and poultry to the United States to assure compliance with applicable Federal laws and regulations.

5. Applying foreign governments' inspection requirements and procedures to products exported from the United States.

6. Conducting emergency operations in connection with the voluntary recall of meat and poultry products contaminated with drug or chemical residues, other adulterants, or microbial contamination.

7. Conducting epidemiological investigations based on reports of food-borne health hazards and disease outbreaks.

8. Monitoring allied industries to prevent uninspected, unwholesome, or mislabeled meat and poultry from illegally entering channels of commerce.

9. Providing pathological, microbiological, chemical and other scientific examination of meat and poultry products for disease, infection, contamination, or other types of adulteration.

10. Developing new methodology to reduce inspection costs and improve inspection quality.

11. Assuring that inspection operations are carried out effectively and efficiently.

12. Conducting a national residue program, including residue avoidance efforts.

13. Conducting a microbiological monitoring and surveillance program.

14. Providing public information to assure the safe handling of meat and poultry products by consumers.

Selected Examples of Recent Progress:

1. Assessing the Inspection Program and Planning for the Future

In July 1985, the National Academy of Sciences released a report written by its Committee on the Scientific Basis of the Nation's Meat and Poultry Inspection Program. The report, conducted under a USDA contract, found that meat and poultry prepared under federal inspection is generally safe and wholesome, but that inspection could be improved considerably by the introduction of new technologies for detecting microbial and chemical contaminants, and by revision of inspection practices to incorporate the principles of risk assessment.

The committee extended its study to all potential sources of health hazards in meat and poultry products, including areas outside of FSIS jurisdiction, such as farms and feedlots. The committee recommended that improvement of the inspection system should be sought in several areas.

(1) Reduction of microbiological risks to public health, such as *Salmonella* and *Campylobacter*, which cause food-borne illnesses especially risky for groups such as young children and the elderly. These organisms are not detectable by usual slaughter inspection procedures. The committee recommended that FSIS increase its current efforts to control and eliminate these agents, including efforts to evaluate rapid detection tests and to educate the public, health workers and the food industry in proper product handling.

(2) Strengthened control of chemical residues. The committee concluded that the agency's National Residue Program now meets its primary objectives and has made considerable progress in several areas, but is deficient in three of ten charateristics identified by the committee as desirable for an optimal residue control system. The committee recommended that FSIS' residue monitoring program draw a larger number of samples to reduce consumer exposure to residues. The committee also suggested greater communication with experts outside the agency and a formal risk assessment and risk management program.

(3) Inauguration of a system for animal identification and traceback. Concluding that the most effective way of preventing or minimizing hazards presented by certain infectious and chemical agents is to control these agents where they enter the food chain, the committee recommended development of a system for tracking food animals during their lifetimes. It also recommended that involved agencies install procedures to trace residues back to their source and establish a national center to monitor and store information on animal diseases.

(4) Use of risk assessment in inspection methods. The committee concluded that more efficient inspection procedures introduced by the agency since 1979 have not reduced the quality of public health protection. To assure continued

maintenance of program quality in the most efficient manner, the committee recommended embodiment of risk assessment--problem identification, exposure assessment, hazard assessment, and quantitative health risk assessment--in the planning and evaluation of all phases of the program, including any future modifications of the inspection process.

(5) Application of advanced technology. The committee recommended that FSIS make greater use of rapid, specific, and sensitive techniques to detect harmful microorganisms and chemicals in meat and poultry, improve data acquisition and retrieval facilities, and develop a capability for conducting or contracting for research tailored to the programs' needs.

The committee described seventeen components of an "optimal" meat and poultry inspection system, and, while recognizing that many of the components are part of the current FSIS system, encouraged the agency "to compare its program with these criteria and to establish a schedule for incorporating missing components as soon as feasible."

The National Academy of Science's report confirms the validity of current modernization efforts and provides findings and recommendations, all of which have been incorporated into the agency's long range planning process. Acting immediately on one recommendation, FSIS has initiated a study on public health risk assessment in poultry post-mortem inspection, which will also serve as a model for analyzing livestock post-mortem procedures.

A recent FSIS assessment of industry trends complements the NAS report. The agency expects the red meat industry to attempt to maintain profitability in the face of strong competition and relatively steady per-capita consumption by introducing more mechanization, locating plants close to feedlots, increasing company size to take advantage of economies of scale, and moving to increase production of value-added processed products.

For FSIS, these factors imply no significant increase in the number of slaughter inspectors in the area of red meat: higher line speeds should offset small production increases. On the other hand, the continually rising per-capita consumption of poultry (from 45.4 pounds in 1967 to 65.5 pounds in 1983) will lead to a greater demand for poultry slaughter inspection; and continued increases of further-processed products of both red meat and poultry will lead to greater demand for processing inspection. These sources of future demand for additional inspection resources emphasize the need for continuing efforts to formulate revisions to the inspection statutes allowing greater flexibility in the assignment of processing inspectors, and to study new ways to make poultry slaughter inspection more efficient.

2. Improvements in Slaughter Inspection

The construction of high-volume mechanized plants in both the red meat and poultry industries has given the agency an opportunity to improve the efficiency of its slaughter inspection by combining new slaughter inspection procedures with plant-operated partial quality control (QC) programs designed to ensure that carcasses are properly processed. Under the QC programs, plants continuously check carcasses at critical points during evisceration and processing procedures, and record their findings. FSIS monitors the QC program by periodically sampling carcasses and verifying that the plants have made the appropriate checks of the critical control points, thus ensuring that finished product standards are met. Several new inspection systems for both livestock and poultry that combine an inspection procedure with plant operated quality control programs have been recently designed.

The first of these new systems, implemented in November 1984 for broilers and cornish game hens, is the New Line Speed (NELS) Inspection System. Under NELS, production linespeeds can increase to 91 birds per minute, a 75 percent gain over linespeeds of several years ago. The NELS system is designed to use one, two, or three inspectors per eviscerating line, plus a monitoring inspector. The one and two inspector NELS system will allow industry and FSIS more flexibility in the use of personnel. Eight plants changed to this system in FY 1985, and the Agency anticipates that additional plants will convert to the NELS system in FY 1986.

In September 1985, the final rule for the New Turkey Inspection (NTI) System was published. This system is similar to the NELS Inspection System and is designed for plants to use either one or two inspectors per processing line. This new system allows for more efficient use of inspection personnel and enables plants to increase their productivity by requiring fewer lines stoppages while continuing to assure safe and wholesome product for the consumer. Ten turkey plants are expected to operate the NTI system in FY 1986.

Feasibility testing for QC-type inspection systems for cattle and swine have continued during 1985 in a small number of pilot plants. Both the new cattle and the new swine systems combine the inspection of the carcass and viscera so that it can be completed at the traditional viscera inspection site. Like NELS and NTI, these systems also require a plant-operated quality control program for controlling the dressing operation while inspectors concentrate on detecting diseased carcasses. A proposal to implement the New Swine Inspection System and the New Cattle Inspection System is to be published in FY 1986.

Poultry slaughter inspection is inherently more labor-intensive than red meat inspection. If the rise in poultry consumption continues, as expected, the agency must either make a major revision in the manner of inspection or plan for continually increasing employment. During 1985, FSIS began to examine an approach to broiler inspection which requires the plant to separate normal from abnormal carcasses before inspection. This Cooperative Government and Industry System of Inspection, also known as The "Third Generation", of poultry inspection is an outgrowth of the NELS Inspection System. Working on two NELS type processing lines, five plant employees and one USDA inspector will sort birds using the basic NELS carcass examination procedures. Condemnation rates will be continually recorded on in-plant computer terminals and the rates of the plant employees compared with that of the USDA inspector. After the carcasses have been sorted and processed, the two lines will converge at the USDA inspection station. There an inspector will observe the finished carcasses and also constantly monitor each plant sorter's performance with the aid of a continuously updated computer generated performance analysis.

The project progressed as planned in FY 1985. A Perdue, Inc. poultry plant in Accomac, Va. volunteered to cooperate with the design and development of the "Third Generation". It has converted its operation to NELS and installed computer terminals at each inspection/sorting site. Under a cooperative agreement with Georgia Institute of Technology, the first of two major computer software packages has been developed and implemented on the test lines.

The second package of computer software will alert the USDA inspector if a plant sorter is not performing as expected. This software package is scheduled for delivery by the middle of 1986 at which time the "Third Generation" will be field tested and fine-tuned with implemention projected for the latter half of FY 1986.

3. New Approaches to Processing Inspection

During FY 1985, FSIS took steps to make the inspection of complex processed products more reliable by testing a quality-control approach applicable to all plants and by announcing a policy which will introduce highly trained food technologists to the processing workforce.

This year the Agency has extended pilot testing of the Inspection System Work Plan (ISWP) to a total of seven circuits. This approach adapts a quality control concept to traditional processing inspection: processing inspectors use certain total quality control (TQC) inspection procedures in non-TQC plants. Under ISWP, an inspector in a non-TQC processing plant develops a plant profile from which he or she writes an inspection plan covering the critical points in the process, in contrast to the procedure in a TQC plant where an inspection plan can be developed from the plant's own quality control plan. Inspectors record their findings in inspection logs to ensure uniform, consistent examination of the plants. The new approach appears to meet the regulatory needs of the inspection task. In addition, the pilot tests have disclosed that communication has improved between the plant and inspector as well as between inspector and supervisor. This was attributed to the structure and clarity of duties provided by the "Plan of Inspection" used in ISWP. In test plants, the number of plant deficiencies has dropped as a result of the constant communication between plants and inspectors and the fact that the deficiencies were noted on the inspection log.

In December 1984, FSIS announced that the Agency would begin introducing Food Technologists into the workforce to fill inspection assignments in processing operations. This change in policy stems from the increasing complexity of food processing operations, and the need for more advanced technical knowledge and skills on the job. The Food Technologist series, which has higher educational qualifications than the Food Inspector series, will provide the Agency with a cadre of professionals who will be able to fill complex processing inplant, relief, supervisory and staff positions in the future. This approach will also enhance the Agency's ability to utilize more sophisticated mathematical and microbiological techniques as fundamental tools in regulating the meat and poultry industry. The introduction of the Food Technologist position into the workforce is one of the most significant changes to be undertaken in the history of the program.

As the most efficient way of facilitating the change, the Agency has established a 10-year transitional period during which the Agency will, to the fullest extent possible, provide present employees with the opportunities to accommodate to this new policy.

4. Regulation of Total Quality Control Plants

As a result of the demonstrated consistency of product safety, wholesomeness, and accurate labeling in plants committed to total quality control, the Agency in 1985 proposed two rule changes which would allow more flexible regulation of these plants.

On August 19, 1985, FSIS proposed a rule in the Federal Register that would allow processing plants that have operated under an approved TQC program for at least one year to expand their daily operating schedules from eight hours to up to twelve hours. Plants receiving FSIS approval for this program would be able to produce and ship products for four additional hours daily without paying for an inspector's overtime services or holding the shipment until the next regular shift as is currently required. Processors would be required to random sample products scheduled to leave the plant after the regular eight hours of operation and to keep secure the samples until the inspector's next shift. In addition, FSIS would occasionally monitor--at the plant's expense--operation past an eight-hour shift. If approved quality controls were not being observed the Agency would terminate its permission for the plant to operate under a TQC inspection system.

On September 25, 1985, FSIS proposed a rule that would allow plants that have operated under an approved TQC program for at least one year, to label products for which FSIS has established content requirements without the agency approval now required. Plants that participate in the voluntary labeling program would have to submit for approval a plan to ensure that the plant has control over the labeling system and that no misbranded products would enter commerce. Inspectors would monitor the plant's TQC program to ensure compliance with the product preparation and labeling regulations. Product labels involving more substantial changes, including those with nutritional information, would continue to be approved by FSIS.

The number of total quality control (TQC) processing plants continues to grow:

Fiscal Year	Systems Approved	Systems in Place
1981	36	32
1982	102	66
1983	211	189
1984	367	330
1985	464	410

5. Import Activities

During FY 1985, inspectors monitored the importation of approximately 2.2 billion pounds of foreign meat and poultry products to assure that foreign product sold in this country meets the same high standards of wholesomeness as domestically produced product. Nearly 16 million pounds of product were refused entry into this country because of failure to meet standards.

During 1985 the Agency took steps to correct remaining administrative weaknesses in the import program, uniting all activities by including domestic import inspectors in the organization responsible for foreign inspection. This consolidation, completed in April 1985, reduces the layers of field supervision from 3 to 1; provides that all supervisors of import inspectors are specialists in that field; ensures close coordination between the review function performed in foreign countries and inspection of incoming product; and joins policy formulation and import inspection activities within one organization.

6. Review of Inspection Program in Southern California

Early in 1985, FSIS recognized problems in its inplant inspection efforts in the Southern California area. To gauge the nature and extent of the problems, the Agency dispatched a special review team to the area. Team members reviewed more than half the plants in the area, interviewed more than 200 inspectors and supervisors and more than 200 industry representatives. The plant reviews showed that only 47 percent of the plants had no, or only minor, deficiencies, compared to a 1984 national average of 62 percent. Six percent of the California plants had deficiencies serious enough to warrant special reports, while the national average was four percent. The review identified a range of problems in the program in such areas as organization of circuits, quality of supervision, labor-management relations, and coverage of inspection assignments.

As a result of these findings, a number of improvements have been initiated. Program administration has been strengthened in the area office; circuits have been realigned to distribute workload more evenly; work-unit meetings have become more frequent as a means of improving communication among inspection personnel; training opportunities have been emphasized in areas such as performance expectations and labor-management relations; plant controls have been tightened in certain areas to prevent possible outbreaks of Salmonella contamination; a number of plants have been assigned to more intensive inspection schedules; and the new Inspection System Work Plan method of inspecting processing plants is being pilot tested.

7. Enforcement

It is FSIS' responsibility to assure that businesses operating under the provisions of the Meat and Poultry Inspection Acts comply with requirements for a safe, wholesome, and properly labeled meat and poultry supply. Each plant that receives a grant of inspection agrees to operate and produce product in compliance. However, not all plants or operators are willing or able to comply fully with all regulations. A small minority of plants act outside the inspection acts and regulations.

In February, a Montana firm and its co-owners were found guilty of violating the Federal Meat Inspection Act. The firm was fined $1,000 and the two co-owners sentenced to prison. The firm slaughtered and sold uninspected meat.

In February, inspection services to a North Carolina firm were suspended, but the suspension is being held in abeyance as long as the company adheres to federal inspection laws and to all state and local laws prohibiting assault, intimidation, or interference with inspectors performing official duties.

In April, a Pittsburgh firm was fined and its president fined and sentenced to three to nine months' in prison for selling adulterated and misbranded meat and food products.

In July, four officials of two Pennsylvania firms were sentenced to one-to-two-year prison terms, fined, and/or given five years' probation for diverting uninspected beef from a pet food company through an official establishment for sale to institutional customers.

8. Intensified Regulatory Enforcement

The objective of the Intensified Regulatory Enforcement (IRE) program is to establish an environment in which plant management achieves and maintains consistently acceptable operating practices. At the end of FY 1985, eleven plants were under IRE. While designated in an IRE status, the plant's activities are monitored very closely to assure that product leaving the plant is wholesome and unadulterated. The program's effectiveness stems from its use of a team of inspection personnel who devise a plan of inspection tailored to address the problems of the individual plant and develop specific regulatory actions necessary for each supervisory level in dealing with plant management. The nature of these intensified inspection and enforcement actions will vary depending upon the particular problems of non-compliance in each plant.

9. Irradiation

On July 22, 1985 the U.S. Food and Drug Administration (FDA) published a final rule approving the use of low-level irradiation doses for pork carcasses and fresh non-heat-processed cuts. Irradiation is a process by which gamma rays, x-rays or electrons are passed through a food to kill insects, mold or microorganisms that can lead to spoilage or disease. The low dose of irradiation recently approved will sterilize trichina larvae and prevent maturation which will prohibit reproduction in the human body causing trichinosis. Irradiated pork is not now in the marketplace. The Agency is currently developing procedures and controls relating to plant operating procedures, employee safety and training, sanitation, facilities, quality control, and labeling. These should be complete by January 1986.

10. New Testing Methods and Laboratory Improvements

This year over 300,000 food composition, microbial contamination, and residue contamination analyses were conducted as part of the FSIS mission to ensure safe, wholesome, unadulterated and correctly labeled and packaged meat and poultry products. In FY 1985, FSIS continued to develop laboratory tests and onsite screening tests to detect undesirable compounds most likely to occur in the meat and poultry supply, thereby extending the consumer's level of protection. FSIS also developed less expensive and more rapid testing methods. More than 20 new analytical testing procedures were introduced for routine use in FSIS laboratories-- rapid tests as well as more sophisticated laboratory methods. Some methods provide multi-residue testing of a number of chemical compounds. One new screen replaces the use of five assays for anthelmintics (drugs for intestinal parasites).

Another test developed is a rapid, low cost, sensitive test for detecting evidence of trichinae infection in swine. The Trichinosis Enzyme Immunoassay enables inspectors to test as many as 96 blood samples in approximately 30 minutes. The assay has been introduced to swine producers, processors and to marketers of commercial tests. It is now being used as a surveillance tool by the Agricultural Research Service, and is being considered by the meat industry as a possible method for certifying swine as "trichina tested". Another assay developed was a soy protein procedure which will detect the fraudulent substitution of soy in meat products. A third new test provides FSIS with a long needed tool for species identification by detecting the fraudulent presence of bovine and poultry products in cooked meat.

The new Western Laboratory has 25,000 square feet of laboratory and office space and replaces the old which was smaller and did not meet health and safety standards. The Alameda Laboratory opened in October and is operational.

II. Residue Control

In August 1984, FSIS instituted a major nationwide program to correct serious high incidences of sulfa and antibiotic residues in bob veal calves (calves up to three weeks of age or weighing less than 150 pounds). The program uses the Calf Antibiotic and Sulfa Test (CAST), which enables inspectors to perform inplant rapid testing. Over 85,000 calves have been tested in plants this year for antibiotic and sulfonamide residues. In early FY 1985, violations peaked at over 5% in January and since then have dropped continuously. The sharpest decline in violations came during winter when the violation rate dropped to 2.9% in February and 2.4% in March. A decline during winter is significant as violations are normally the highest during the cold months.

In May 1985, FSIS published a Federal Register notice concerning the sulfa residue problem in swine, currently at seven percent. In FY 1984, sulfonamide residues in swine were at a level of about 6 percent in animals presented for slaughter. Approximately half of the values have been high enough to indicate that many producers had made little or no effort to withdraw their animals from medicated feed. Levels in the other half indicated either incomplete withdrawal or incidental exposure--problems which could be corrected by giving greater attention to better agricultural practices. To deal with the situation, FSIS is considering implementing a stringent residue control program using in-plant analytical procedures. The goal of this program would be to reduce violative levels of sulfonamide residues in swine and decrease the likelihood that adulterated meat will enter human food channels. To accomplish this, FSIS will conduct a pilot in-plant testing program in FY 1986 based upon (1) the use of an onsite test for sulfonamides which can be performed by the assigned inspection personnel so test results will be ready before the tested production lot loses its identity; and (2) the notice published in May 1985, which gave industry an opportunity to comment on how such a program can best be structured for effectiveness with minimal impact on normal operations. To date, most comments received from industry indicate no objection to the necessity of the program, but industry is very concerned with the impact. Before publishing proposed rulemaking, FSIS will review and respond to constructive suggestions made by industry.

STUDY OF USER FEE OPTIONS FOR THE FOOD SAFETY AND INSPECTION SERVICE

March 1986

Policy and Planning
Food Safety and Inspection Service
U.S. Department of Agriculture

EXECUTIVE SUMMARY

Purpose

In December 1985, the Administration directed the Food Safety and Inspection Service (FSIS) to develop a user fee system where the costs of the meat and poultry inspection program would be paid by the regulated industry, starting with the Fiscal Year 1987 budget. The purpose of this study is to analyze alternatives and recommend methods for FSIS to assess and collect user fees.

User Fee Options

FSIS considered two options for assessing user fees for both domestic and import inspection. These options are the following:

(1) Fee Based on Hours of Inspection. Plants and importers would pay a given rate for each hour of inspection received.

(2) Fee Based on the Volume of Production. Plants would pay for inspection based on some measure of production, e.g., number of head slaughtered or pounds of product produced. Importers would pay a fee based on the total number of pounds of imported product.

After identifying these options, the Agency selected three criteria--equity, efficiency, and accountability--to assess the effectiveness of each user fee option. These criteria were selected because they represent objectives for managing the inspection program with minimal disruption to the industry and to the inspection process.

Analytical Framework

This study views the designing of a user fee system as two distinct tasks: the first is to determine the basis for assessing user fee charges; the second is to design the collection and enforcement mechanism. As described in the Agency's rationale for a user fee system, a user fee assessment must reflect the distribution of program benefits and be resistant to external pressures. Therefore, the "equity" and "accountability" criteria are first used to evaluate user fee assessment options. After the assessment option is selected, the "efficiency" criterion is used to determine how collection and enforcement should be implemented using the selected assessment base.

Domestic Inspection User Fee System

For domestic inspection, this study concludes that volume of production is the most equitable means for assessing user fees because it most closely reflects the distribution of benefits from inspection and avoids penalizing small firms for inspection inefficiencies which are not under their control. Using production volume also avoids generating undue pressure on the Agency to reduce inspection in an individual plant.

This user fee would be collected at the site of slaughter. These fees would cover both slaughter and processing inspection costs. This recommendation is based on the conclusion that the burdens associated with providing assessment data in processing plants makes it impractical to collect a user fee at processing plants. The recommended user fee system relies on the market to distribute the costs of inspection among processors in proportion to their purchase or use of meat and poultry ingredients.

Import Inspection User Fee System

For import inspection, this study recommends hours of inspection as the assessment mechanism because it best reflects the distribution of inspection costs. This import user fee system would be relatively easy to implement and operate. FSIS can use existing data bases and resources for administration and enforcement.

User Fee Funding Mechanism

FSIS proposes to finance its inspection and support activities through a General Enterprise Revolving Fund. Under this arrangement, FSIS would conduct inspection as before and then report to the National Finance Center (NFC) the specific user fee charges for affected plants and importers. Next, NFC bills these plants and importers and they pay their respective user fee bills. No FSIS personnel are directly involved in the handling of funds. Receipts are deposited in an FSIS account at the U.S. Treasury and are available to the Agency to pay its expenses. The funds do not show up as budget authority in the Department's budget. No annual congressional appropriations would be required. Congressional oversight would depend on the provisions of the law.

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I. INTRODUCTION

Purpose

The Federal Meat Inspection Act of 1906 and the Poultry Products Inspection Act of 1956 require that all meat and poultry sold in interstate commerce be safe, wholesome, and accurately labeled. To accomplish this, FSIS inspectors examine the carcass of every animal and bird slaughtered in federally inspected plants. In addition to inspecting carcasses at slaughter, FSIS inspects processed meat and poultry products made from these carcasses. At present, inspection is financed from USDA's annual budget appropriated by Congress.

In December 1985, the Administration directed the Food Safety and Inspection Service (FSIS) to develop a user fee system. A system, where the total costs of inspection would be paid by the regulated industry, would be implemented beginning with the Fiscal Year (FY) 1987 budget.

This study considers various options for assessing and collecting user fees for meat and poultry inspection. Two basic types of user fees--hourly inspection rate and production fee--are examined.

Background

Title V of the Independent Offices Appropriations Act of 1952 (31 USC 483a) specifies that the Federal Government should be compensated for services that benefit specific individuals or groups. On September 23, 1959, Office of Management and Budget (OMB) Circular A-25 was first issued setting forth the policies governing user fee charges for Federal activities that supply benefits to identifiable recipients beyond those received by the general public. The circular states:

> Where a service (or privilege) provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Federal Government of rendering that service. For example, a special benefit will be considered to accrue and a charge should be imposed when a Government-rendered service...(P)rovides business stability or assures public confidence in the business activity of the beneficiary...[1]

In April 1980, interest in user fees increased, and the Senate Committee on Appropriations requested USDA to review its inspection, grading, and classification programs to determine whether revisions were needed to assure equal treatment of each commodity group involved. The Department's response considered the impact of fee-for-service systems of funding.[2] The study concluded that assessing user fees to fund mandatory meat and poultry inspection activities that were not currently paid for by industry would require a change in legislation.

1/ OMB Circular No. A-25 "User Charges," as amended, Office of Management and Budget, April 16, 1974, p.1-2.

2/ Analysis Of Alternative Sources Of Funding And Program Effectiveness Of Agricultural Commodity Inspection, Grading, And Market Monitoring. U.S. Department of Agriculture, April 1980.

Before FSIS can implement any user fee system, Congress must amend the Federal Meat Inspection Act and the Poultry Products Inspection Act to:

- Permit the Federal Government to charge for mandatory inspection services (other than those performed on holidays and overtime).[3/]

- Permit the Federal Government to establish an account in the U.S. Treasury to accept and disburse payments associated with charging for inspection and paying the inspection costs.

These changes would permit the Agency to design a system that would recover the total cost of providing inspection services. With these changes, the system would be implemented in FY 1987.

Report Plan

The next chapter presents the policy guidelines and analytical methodology for evaluating two user fee options. The third chapter describes and evaluates the two user fee options for domestic inspection. The fourth chapter focuses on implementation of the chosen option. The fifth chapter discusses two user fee options for import inspection.

[3/] The Agency currently has authority to charge fees for three types of inspection activities. First, the Agency charges for inspection of animals not covered by the meat and poultry inspection acts such as rabbits. Second, the Agency charges for overtime inspection and for inspection provided on holidays. Finally, the Agency charges for any inspection of exported product that is in excess of the inspection requirements placed on domestic product.

II. POLICY GUIDELINES AND ANALYTICAL METHODOLOGY

This chapter provides the basic guidelines which the Agency uses to analyze various user fee options. It presents the Agency's user fee rationale, policy framework, three assessment criteria, and analytical methodology used to evaluate, select and implement a user fee system.

FSIS User Fee Rationale

As discussed in Chapter I, Federal Government policy states that user fees are applicable when special benefits accrue to identifiable recipients. The Agency believes that one benefit of meat and poultry inspection is the increased consumer confidence in meat and poultry products that accrues to all establishments in the inspection system. The Agency's inspection activities help to assure public confidence in meat and poultry products by assuring that all products traded in commerce meet standards of safety, wholesomeness, and consumer information. The inspection process keeps unsafe, unwholesome, or improperly labeled products out of the marketplace. This protection of markets is symbolized by the mark of inspection on all meat and poultry products produced in federally inspected plants.

Although the Agency believes that the benefits of meat and poultry inspection are not precisely measured by the cost of specific inspection activities within individual plants, it recognizes that the costs of inspection in individual plants are closely related to the magnitude of a plant's benefits from the inspection program because both costs and benefits are related to the volume of production. Therefore, the underlying premise of the Agency in developing fees based on inspection costs is that these costs are a reasonable reflection of the distribution of benefits from inspection.

The user fee assessment options that are considered in depth in this paper are those which permit the Agency to charge fees that are related to the magnitude of inspection costs within plants. However, since the reason for using costs as a basis for assessing fees is based on the fact that these cost distributions approximate benefit distributions, where cost differences do not reflect benefit distributions, they are "averaged" out when determining the base for a user fee assessment.

Policy Framework

Before describing and assessing alternative options for a user fee system, the Agency identified six essential characteristics. They are the following:

(1) The user fee system will recover the full cost of Agency operations, including administrative costs and support services.

(2) The full cost of the inspection program will be recovered beginning in Fiscal Year 1987.

(3) To the extent feasible, the user fee system should reflect differences in the actual costs of inspection for different industry sectors (red meat slaughter, poultry slaughter, food processing and importers).

The costs of inspection for each sector should include a proportional share of overhead expenses.

(4) In addition to the user fee charge, the Agency will continue to charge an hourly rate for overtime inspection activities as required by law.

(5) There will be no changes in inspection methods to accommodate user fees.

(6) Grants to State programs will be eliminated at the start of the user fees.[4/] Federally inspected plants will not be required to fund inspection at State inspected plants.

Assessment Criteria

The Agency selected three criteria--equity, accountability and efficiency--to evaluate user fee options. These criteria represent objectives for managing the inspection program under a user fee system with minimal disruption to the industry and to the inspection process. The criteria are defined in the following paragraphs.

[4/] Currently, State-managed inspection programs can receive up to one-half of their operating funds from the Federal Government. The loss of Federal grants may result in States turning their programs over to FSIS which would increase FSIS' costs. Currently, 27 State-managed meat inspection programs and 23 State-managed poultry inspection programs are operating.

Equity

Equity considerations are built into the study at two levels. The first concern is the allocation of costs. As discussed in the policy framework, FSIS believes that, as nearly as possible, each domestic industry sector should be charged only for the inspection required in that sector and that importers should pay the total inspection costs for imported meat and poultry products.

The second level of equity concerns the allocation of costs within each sector. Here, the study defines an equitable user fee system as one which reflects the costs of inspection, to the extent possible, without placing small businesses at a disadvantage. The concern for small businesses has been incorporated into the definition of equity because of the influence that economies of scale exe[illegible] on the cost of performing inspection. In most cases, inspection is more efficient at large plants. The Agency seeks to design a user fee system that does not penalize small plants because of the less efficient inspection in those plants, since variations due to inspection efficiency do not reflect the distribution of benefits. In examining alternative means for assessing fees, the Agency has attempted to neutralize the diseconomies of performing inspection in small plants.

Accountability

The Agency's primary objective is to carry out its regulatory responsibilities. A user fee system must assure that standards will be maintained and uniformly applied despite the fact that industry is paying for a regulatory service. The Agency should be able to assure consumers and industry that the inspection program is resistant to external pressures, particularly pressures to modify its inspection standards. By designing a basis for user fees that is not directly related to the use of inspection resources in a particular plant, the Agency can avoid providing an opportunity for such pressures to be generated. Further, the Agency should be able to assure that all users are paying their fair share. This means that the user fee system must use objective, verifiable data.

Efficiency

The Agency seeks to design a user fee system that is not excessively costly for the Agency or the industry to administer. The system must be uniformly applied and understandable. It should require as few additional reporting requirements for industry as possible and as small an additional workload for the Agency as possible. Existing data now supplied by industry or collected by the Agency should be used whenever possible.

Analytical Framework

There are two distinct tasks involved in designing a user fee system: the first is to determine the basis for assessing user fee charges; the second is to design the collection and enforcement mechanism. In accordance with the Agency's rationale for a user fee system, a user fee assessment must reflect the distribution of program benefits and be resistant to external pressures. Therefore, the "equity" and "accountability" criteria are first used to evaluate user fee assessment options. After the assessment option is selected, the "efficiency" criterion is used to determine how collection and enforcement should be implemented using the selected assessment base.

This analytical framework gives precedence to "equity" and "accountability" objectives in designing a user fee system and reflects the Agency's belief that the credibility, and therefore the feasibility, of the system requires that these objectives be met even if the resulting implementation is more costly.

As stated in the policy framework and in the definition of equity, FSIS believes that each industry sector should be charged only for the inspection required in that sector. Since domestic and import inspection involve different activities in different settings, they have a different sensitivity to assessment mechanisms. For clarity of exposition, the evaluation of the domestic inspection user fee options is separated from the evaluation of import inspection options.

III. OPTIONS FOR ASSESSING DOMESTIC INSPECTION USER FEE

This chapter examines in depth two options for assessing a user fee charge for domestic inspection: a fee based on hours of inspection and fee based on production. Each option is defined and then evaluated against the equity and accountability criteria.

As explained in the User Fee Rationale section in the previous chapter, the Agency has concluded that in order to equitably reflect the benefits of meat and poultry inspection, a user fee charge must approximate the distribution of inspection costs. For this reason, after a preliminary review of assessment options, the Agency has rejected for further consideration those options such as license fees and fees based on violations that do not meet this requirement.

Fee Based on Hours of Inspection

Fees for inspection could be based on an hourly rate for inspector time. The hours of direct inplant slaughter inspection for FY 1984 were 5.79 million hours for red meat and 5.81 million hours for poultry.5/ Using the FY 1984 obligated costs of $107.0 million for red meat and $92.2 million for poultry, the hourly rates would be $18.48 per hour ($107.0 million ÷ 5.79 million hours) and $15.87 per hour ($92.2 million ÷ 5.81 million hours), respectively.

5/ Data received from Budget and Finance Division, FSIS, January 1986.

Processing inspection required approximately 4.47 million hours in FY 1984.[6/] Given the FY 1984 cost of processing inspection of $99.7 million, an inspection charge of $22.30 per hour ($99.7 million ÷ 4.47 million hours) would be required. The Agency does not distinguish between meat or poultry processing inspection hours. In many cases it would not be possible to do so because both meat and poultry products are being produced in the same plant. The Agency assumes there is no difference in the respective hourly costs of inspecting meat and poultry processed products.

A fee based on hours of inspection is the easier alternative to implement because of the availability of records on inspection hours, but it raises serious questions of equity and accountability for domestic inspection. As far as equity is concerned, a user fee system based on inspector hours places a relatively greater financial burden on small plants. Slaughter inspection is more efficient in large plants because they are equipped to move larger volumes of product through inspection stations in a given time. An analysis[7/] of the ratio of inspection hours per head in three different size cattle slaughter plants showed that the inspector hours per 100 head slaughtered ranged from 5.2 at the largest plant to 18.2 at the smallest. At $18.48 per hour, the cost per head would range from $.96 in the largest plant to $3.36 in the smallest plant. Similarly, for three different size hog slaughter plants, the cost per head ranged from $.22 in the largest to $2.72 in the smallest plant.

[6/] Data received from Budget and Finance Division, FSIS, January 1985.

[7/] Based on actual plant data collected in 1981.

For processing inspection, this option places a relatively greater financial burden on small plants and plants in remote locations. The Agency estimates that processing plants on patrol inspection (almost 6,000 plants),[8/] which are usually small plants, account for approximately 60 percent of the processing inspection resources but only 30 percent of the product inspected. The Agency inspected an estimated 120 billion pounds of processed meat and poultry products in FY 1984.[9/] Thus, an hourly fee for the plants on patrol inspection would amount to an estimated average cost of $.0017 per pound of product inspected [($99.73 million x 60%) ÷ (120 billion pounds x 30%)].

In contrast, the 1,000 processing plants not on patrol inspection represent an estimated 70 percent of the inspected product but require only 40 percent of the resources. For these plants (with one or more full-time inspectors), the hourly fee would result in an estimated average cost of $.00047 per pound of product inspected [($99.73 million x 40%) ÷ (120 billion pounds x 70%)]. The average inspection cost per pound in the patrol plants would be 3.5 times greater than the inspection cost in the larger plants with one or more full-time inspectors.

[8/] Patrol inspectors are responsible for inspection at more than one plant and must allocate their time to each one as needed.

[9/] Meat and Poultry Inspection, 1984, Report of the Secretary of Agriculture to the U.S. Congress, USDA/FSIS, March 1, 1985, p. 13.

The difference in cost between large and small plants would be even greater if the largest plants are compared to the smallest plants. An analysis of 10 plants conducted in 1981 found that the cost of processing inspection varied from a low of $.00028 per pound to $.039 per pound, over 139 times as much ($.039 ÷ $.00028).[10]

The allocation of travel time raises another equity issue. Some patrol inspectors spend a considerable amount of time traveling between plants. The above calculations are based on having inspectors allocate their travel time to the individual plants on the patrol (e.g., travel time would be counted as inspection time). Another approach more in accord with the study's definition of equity would be to treat travel time as an overhead expense and distribute it equally across all inplant inspection hours.

Agency policy is that plant characteristics alone should determine the amount of time needed for inspection. This situation could be aggravated by some of the indeterminate aspects of patrol assignments. Approximately 1,100 slaughter plants and approximately 5,600 processing plants are inspected by a patrol inspector. (Some double counting occurs here as there are plants that conduct both slaughter and processing activities.) Because deciding how much time is needed in each plant is left to the inspector's judgment, the patrol inspector is particularly vulnerable to pressures to reduce time in specific plants. If questioned about a fee, the Agency would have no clear, objective basis to justify the amount of user charges assessed one patrol plant compared to another.

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[10] These calculations are based on actual field data collected in 1981.

Basing a user fee on inspection hours would have a negative effect on accountability, because it could encourage a plant to put pressure on the Agency to reduce inspection hours so that its user fee charge would be lower.

Fee Based on Volume of Production

Fees for inspection could be determined by dividing the cost of inspection by the volume of production. There are a number of ways to measure production volume at slaughter, e.g., number of live animals or birds, number of carcasses, pounds of live weight, or pounds of carcass weight. It is convenient to measure pounds of slaughter production by multiplying the number of animals and birds slaughtered by the average carcass weights for each species. The measurement of actual pounds of product would be unnecessarily burdensome because the Agency does not currently collect these data, and plants that slaughter, cut up and further process in continuous operations may not record these data. By counting the number of carcasses and multiplying it by the average species weight, the Agency can best approximate the total pounds of production for each plant in an efficient manner.

There are several ways of measuring production at processing plants, e.g., volume of product inspected, volume of incoming meat and poultry products, volume of outgoing product, and value of incoming or outgoing product. The Agency currently has two data bases for processed products, MP 404 for meat processing and MP 536 for poultry processing. The MP 404 system records pounds of meat product inspected. The MP 536 system records pounds of poultry ingredients used in further processed products. The Agency does not consider these existing data bases acceptable for determining something as sensitive as user fees for individual plants. They are inadequate for implementing a user fee system because:

- As already discussed, the two systems do not measure the same variable, i.e., the MP 404 system records pounds of meat product inspected where the MP 536 system records pounds of poultry product ingredients.

- The MP 404 system was designed to follow product as it moves through different processes. Some processes have changed with technology, raising questions concerning the relationship between the data and actual pounds of product inspected.

- In the MP 404 system, product subjected to more than one reportable process (e.g., boning, cooking and slicing) must be recorded under each process. The number of reportable processes is a subjective measure due to differences in definitions.

- In recent years many meat plants have begun using poultry ingredients. These changes have not been recorded consistently across all plants.

Because of these and other problems, the Agency has concluded that it must either revise the existing data systems or develop a new system based on one of the above measures of production.

This option rates relatively high on equity. First, production volume is a good indicator of the distribution of inspection benefits so that charges based on production volume will also reflect benefit distribution. Second, a charge based on production volume is not affected by inspection efficiency. This means small plants, where inspection efficiency is usually lower, are not placed at a disadvantage as they are when inspection hours are used to assess fees.

This option also rates relatively high on accountability because the charge is not related to the intensity of inspection in the plant. This gives no incentive to plants to put pressure on the Agency to reduce inspection intensity in the plant in order to reduce user fees. Further, it is an objective measure that makes it easy to assure plants that they are paying only their fair share.

Recommended Assessment Option

Table 1 summarizes how the two user fee assessment options rate with respect to the equity and accountability criteria. The conclusion of this analysis is that volume of production is the most equitable basis for assessing user fees because it most closely reflects the distribution of benefits from inspection and avoids penalizing small firms for inspection inefficiencies which are not under their control. Using production volume as an assessment base also avoids generating undue pressure on the Agency to reduce inspection in an individual plant.

TABLE 1

SUMMARY OF USER FEE OPTIONS FOR DOMESTIC INSPECTION

Options	Criteria	
	Equity	Accountability
1. Fee based on hours of inspection	Low	Low
2. Fee based on volume of production	High	High

IV. IMPLEMENTING A DOMESTIC USER FEE SYSTEM

This chapter considers the feasibility of implementing a user fee system that can utilize the assessment base--production volume--developed in the previous chapter. First, two collection options are discussed and evaluated considering the availability of and accessibility to assessment data, the practicality of billing and collection, and the ability of the Agency to enforce the system. Second, the basic funding mechanism is presented. Finally, the calculations for determining the user fees are outlined.

Description of Collection Options

Two methods for calculating and collecting user fees based on volume of production were considered. The first method is to establish production based fees for both slaughter and processing plants. Fees collected at slaughter plants would be based on the cost of slaughter inspection and the volume of slaughter production at each plant. Fees collected at processing plants would be based on the cost of processing inspection and some measure of processing production.

The second method would establish a fee to be collected from slaughter plants based on the total costs of domestic inspection and the production volume at slaughter. Collecting these fees at slaughter would allow the fees to be based on the total domestic production of fresh meat and poultry before these commodities are further processed into products containing widely varying amounts of livestock and poultry ingredients. This option would depend on the market to distribute the costs among processors in proportion to their purchase or use of meat and poultry ingredients.

Both methods of collection would require that the Agency institute a new auditing activity. The size of this activity would depend on the complexity of one assessment process, particularly the availability of and accessibility to data for the assessment base.

Evaluation of Collection Options

The two collection options are discussed in terms of the efficiency criterion.

Option One: Fees Collected at Slaughter and Processing Plants

Implementing this option would create several efficiency problems. First is the difficulty of generating a new or revised data base for processing plants. Generating a new or revised data base to support this system would increase the paperwork burden on plants. OMB would have to assess the impact on industry and increase the Agency's Information Collection Budget before these data could be collected. Further, regular inplant audits would be necessary to assure the integrity of data in the system which determines plant payments.

To assure accountability where establishing the data base is difficult, enhanced auditing is required. Each of approximately 6,600 processing establishments would have its assessment base data audited twice each year. These audits would be necessary to verify that accurate and uniform definitions and reporting procedures are being used in processing plants, since there is no existing data base considered adequate for assessing user fees. The 500 slaughter-only establishments would require much less auditing (see next option) because of an existing data base.

Each auditor (including supervisors) would spend on the average about 1 day (including some travel time) on an audit and would perform 100 audits a year. To perform 14,500 audits annually, the Agency would need approximately 145 auditors (14,500 audits/100 audits per position). The average cost of an auditing position would be about $40,000 per year. To minimize travel costs, these positions would be located within Area Offices. Also required under this option would be additional regional and headquarters support positions and funds to support the billing activities of the National Finance Center (NFC).

The total cost of administering the user fee system under this option would be approximately $7,383,000 which includes 163 additional staff years. These costs are as follows:

1.	Cost of Additional Field Staff: (145 positions) x ($40,000 per position, per year) =	$5,800,000
2.	Cost of Additional Regional Staff: (2 positions) x (5 regions) x ($40,000 per position, per year) =	$400,000
3.	Cost of Additional Headquarters Staff: (8 positions) x ($60,000 per position, per year) =	$480,000
4.	Cost of NFC Processing of Bills: ($3.50 per bill) x (26 bills) x (7,230 establishments) =	$657,900
5.	Cost of Postage: (7,230 establishments) x (26 mailings) x ($.242 per mailing) =	$45,500
	Total Cost	$7,383,400

Option Two: Fees Collected at Slaughter Plants

Determining volume-based charges at the slaughter site would be highly efficient because the number of carcasses is a well-defined, objective measure for which there are readily available, currently collected data. The charges can be determined without a new data collection system and without having to define new units or variables.

The elimination of the problems associated with generating a new or revised data base for processing plants simplifies enormously the problem of auditing the user fee system. With collections only being made at approximately 2,000 slaughter sites using existing well-defined, objective data bases, audits would only have to be conducted periodically when computer program reports suggested a larger than anticipated variance with the Agency's documented production level for a specific establishment. These audits could be conducted by Area Office staffs. Each Area Office staff would be increased by one auditor. A total of 26 auditors would be hired at an average annual cost of $40,000 each. Also required under this option would be additional regional and headquarters support staff and funds to support the billing activities of NFC.

The total cost of administering the user fee system under this option would be $1,505,000 which includes 32 additional staff years. These costs breakdown as follows:

1.	Cost of Area Office Staff: (1 position) x (26 Area Offices) x ($40,000 per positions, per year) =	$1,040,000
2.	Cost of Additional Regional Staff: (1 position) x (5 Regions) x ($40,000 per position, per year) =	$200,000
3.	Cost of Additional Headquarters Staff: (1 position) x ($60,000 per position, per year) =	$60,000
4.	Cost of NFC Processing of Bills: ($3.50 per bill) x (26 bills) x (2,110 establishments) =	$192,000
5.	Cost of Postage: (2,110 establishments) x (26 mailings) x ($.242 cost per mailing) =	$13,300
	Total Cost	$1,505,300

Recommended Collection Option

The table below summarizes how the two options for collecting domestic user fees were rated under the "efficiency" criterion.

TABLE 2

SUMMARY OF COLLECTION OPTIONS FOR DOMESTIC INSPECTION

Options	Efficiency Criterion
1. Collection at Slaughter and Processing Plants	Low
2. Collection at Slaughter Plants	High

On the basis of the evaluation of these two options, this chapter concludes that the burdens associated with providing assessment base data in processing plants makes it impractical to collect a user fee at processing plants. The Agency, therefore, is recommending a user fee system that would collect a fee at the site of slaughter that would cover both slaughter and processing inspection costs, depending on the market to distribute the costs among processors in proportion to their purchase or use of meat and poultry ingredients.

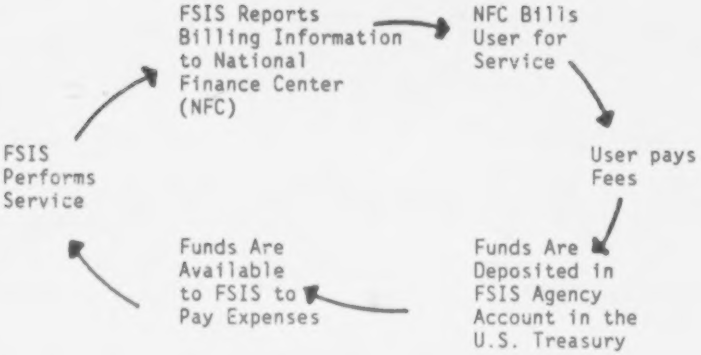
User Fee Funding Mechanism

The funding mechanism that FSIS proposes to finance its inspection and support activities is a General Public Enterprise Revolving Fund. Under this arrangement, an FSIS Agency account would be established at the U.S. Treasury.

The deposit-expenditure cycle, as detailed below (Figure 1), begins with FSIS conducting inspection in meat and poultry plants throughout the United States. Then, FSIS reports to the National Finance Center (NFC) the specific user fee charges for affected plants. Next, NFC bills these plants which then pay their respective user fee bills. No Agency personnel are directly involved in handling of funds. Receipts are all deposited in the FSIS account in the U.S. Treasury. These funds are then available to the Agency to pay its expenses. This fund does not appear as budget authority in the Department's budget.

FIGURE 1

FUNDING CYCLE


FSIS Reports Billing Information to National Finance Center (NFC)
NFC Bills User for Service
User pays Fees
Funds Are Deposited in FSIS Agency Account in the U.S. Treasury
Funds Are Available to FSIS to Pay Expenses
FSIS Performs Service

Under this arrangement, no annual congressional appropriations would be required. Congressional oversight would depend on the provisions of the law. The Department, not Congress, would be responsible for establishing the Agency's annual expenditure level, although Congress may set a limit on these expenditures. Income and expenditure reports would be included in the Department's regular budget submission process and would be sent to OMB. The Secretary of Agriculture would be responsible for establishing and implementing the user fee sytem.

User Fee Calculations for Domestic Inspection

The calculations of user fees begin with an examination of program costs. Table 3 shows FY 1984 obligations[11] for the meat and poultry inspection program by program activities that correspond to certain industry sectors.

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[11] For the purpose of this study, FY 1984 obligations were chosen as the base period.

TABLE 3

FY 1984 OBLIGATIONS ($000)

FOR FSIS PROGRAMS

Program Activity	Total Program Obligations a/	Agency Support Services b/	Laboratory Support c/	Total	Percent of FY 1984 Obligation
Meat Slaughter Inspection	94,435.4	9,522.7	3,031.4	106,989.5	34.7%
Poultry Slaughter Inspection	82,801.6	8,349.3	1,010.5	92,161.4	30.2%
Processing Inspection	79,082.8	7,975.0	12,670.9	99,728.7	32.4%
Red meat d/				(84,769.4)	(85%)
Poultry d/				(14,959.3)	(15%)
Import Inspection	5,679.2	571.3	2,086.8	8,337.3	2.7%
TOTAL	261,999.0	26,418.3	18,799.6	307,216.9	100%

a/ Program obligations include actual inspection expenses for that activity and a prorated share of direct program support, e.g., Technical Services, circuit supervisors, area and regional offices.

Another item under this category is the Compliance Division budget used for the inspection of allied industries, such as animal food manufacturers and renderers.

b/ Agency support services are allocated using the percentage of total program costs for each activity. Support services include costs for the Office of the Administrator, Administrative Management, the National Finance Center, workmen's compensation, unemployment insurance, postage, and other items.

c/ Laboratory support is the Agency's Science Program, plus its share of Agency support. The allocation of costs by program activity are based on data from the Agency's Laboratory Sample Flow System (LSFS).

d/ Based on a preliminary examination of processing inspection resources.

The total FY 1984 obligations of approximately $307.2 million exclude approximately $31.4 million in grants to State inspection programs. As stated in the policy framework, federally inspected plants would not pay any costs of the State grant program.

As discussed above, the recommended user fee system would collect a fee from slaughter plants that would cover both slaughter and processing inspection costs. The next steps in calculating fees are assessing the charges to cover the slaughter and processing costs identified in Table 3. As mentioned in Chapter III, it is convenient to estimate pounds of slaughter production by multiplying the number of animals and birds slaughtered by the average carcass weights for each species. Using this method, FSIS estimates that 37,171 million pounds of meat and 15,739 million pounds of poultry were inspected in FY 1984. The costs for both red meat and poultry slaughter inspection per pound are estimated by dividing the costs of slaughter inspection from Table 3 by the estimated total pounds of red meat and poultry product, respectively. Thus, the estimated cost of red meat slaughter inspection was $.002879 per pound ($106,989,500 ÷ 37,171 million pounds), and the cost of poultry slaughter inspection was $.005856 per pound ($92,161,400 ÷ 15,739 million pounds).

Individual plant fees for slaughter inspection for a given period could then be calculated by counting the number of carcasses inspected, multiplying that number by an average carcass weight, and multiplying the result by the estimated cost of inspection per pound. However, it is inefficient to repeat this calculation for each plant. It is easier to present the slaughter fees as a group of "carcass assessments" which are calculated by multiplying the average carcass weights by the cost of inspection per pound. Thus, individual plant fees can be determined simply by multiplying the number of carcasses by the appropriate carcass assessments. Table 4 contains the data and estimates used in calculating the carcass assessments: the number of carcasses inspected during FY 1984, the estimates for average carcass weights, the estimates for pounds of product inspected, and the estimates for cost of inspection per pound.

The next step in determining user fee charges is to calculate the processing inspection costs per carcass and then add that assessment to the carcass assessment for slaughter inspection. As shown in Table 3, the cost of processing inspection in FY 1984 was $99.73 million. The Agency estimates that poultry processing inspection cost $14.96 million and red meat processing inspection cost $84.77 million. These processing inspection costs were then distributed across the total pounds of red meat (37,171 million pounds) and poultry (15,739 million pounds) carcasses inspected. The costs for processing inspection are thus $.002281 per pound for red meat ($84.77 million ÷ 37,171 million pounds) and $.000951 per pound for poultry ($14.96 million ÷ 15,739 million pounds).

The resulting processing costs per carcass are then calculated by multiplying the processing costs per pound by the average carcass weights from Table 4. The figures used to make these calculations are shown in Table 5 along with the resulting processing costs per carcass.

TABLE 4

ESTIMATED CARCASS ASSESSMENTS FOR SLAUGHTER INSPECTION FOR FY 1984

Species or Class	Number of Carcasses Inspected FY 1984 (Thousands) a/	Average Dressed Weight or Average Ready to Cook Weight b/	Total Pounds (Millions)	Average Inspection Cost Per Pound c/	Carcass Assessment
Cattle	35,265	624	22,006	.002879	$1.7965
Calves	3,017	144	434	.002879	$ .4146
Hogs	82,699	173	14,307	.002879	$ .4981
Sheep/Lamb	6,434	55	354	.002879	$ .1583
Other Meat	238	varies	70 d/	.002879	varies
MEAT SUBTOTALS	127,653	--	37,171	--	--
Young Chickens	4,203,134	3.0	12,609	.005856	$ .0176
Mature Chickens	173,120	2.8	485	.005856	$ .0164
Turkeys	162,672	15.7	2,554	.005856	$ .0919
Ducks	19,944	4.3	86	.005856	$ .0252
Other Poultry	1,301	varies	5 e/	.005856	varies
POULTRY SUBTOTALS	4,560,171	--	15,739	--	--
TOTAL	--	--	52,910	--	--

a/ Meat and Poultry Inspection 1984: Report of the Secretary of Agriculture to the U.S. Congress, USDA/FSIS, March 1985, pp. 10-11.

b/ Except for mature chickens and ducks, the weights are FY 1984 estimates from Livestock and Poultry Outlook and Situation Report, USDA, Economic Research Service, LPS-14, December 1984 (the estimates for mature chickens and ducks are based on 1982 and 1983 data, also published by the Economic Research Service).

c/ Estimated by dividing total pounds of all red meat 37,171 million pounds into the total red meat slaughter inspection cost of $106,989,500. Same procedure for poultry.

d/ Estimates for goats and equine.

e/ Estimates for other poultry such as geese and guineas.

Table 6 adds both slaughter and processing costs per carcass to determine a single carcass assessment that could be collected from slaughter facilities. As can be seen in Table 6, cattle slaughter operations would be assessed $3.2198 for each carcass while chicken slaughter operations would be assessed $.0205, or about 2 cents per carcass.

The final step in calculating the user fees is to add the administrative and enforcement costs ($1,505,300 annually) which are noted in Table 7, to the carcass assessments in Table 6. Figure 2 illustrates examples of final user fee calculations and bills which could be anticipated under specific production situations.

TABLE 5

ESTIMATE OF PROCESSING INSPECTION COSTS PER CARCASS

Species or Class	Average Dressed Weight or Average Ready to Cook Weight a/	Processing Inspection Cost Per Pound b/	Processing Cost Per Carcass
Cattle	624	$.002281	$1.4233
Calves	144	.002281	.3285
Hogs	173	.002281	.3946
Sheep/Lamb	55	.002281	.1255
Other Meat	varies	.002281	varies
Young Chickens	3.0	.000951	.0029
Mature Chickens	2.8	.000951	.0027
Turkeys	15.7	.000951	.0149
Ducks	4.3	.000951	.0041
Other Poultry	varies	.000951	varies

a/ See Table 4.

b/ Calculated by dividing the cost of red meat processing inspection by the pounds of carcass meat produced at slaughter ($84.77 million ÷ 37,171 million pounds). The corresponding cost of poultry processing inspection is $14.96 million divided by 15,739 million pounds of poultry carcasses.

TABLE 6

ESTIMATE OF SLAUGHTER AND PROCESSING INSPECTION COSTS PER CARCASS

Species or Class	Slaughter Costs Per Carcass a/	Processing Cost Per Carcass b/	Total Cost Per Carcass
Cattle	$1.7965	$1.4233	$3.2198
Calves	.4146	.3285	.7431
Hogs	.4981	.3946	.8927
Sheep/Lamb	.1583	.1255	.2838
Other Meat	varies	varies	varies
Young Chickens	.0176	.0029	.0205
Mature Chickens	.0164	.0027	.0191
Turkeys	.0919	.0149	.1068
Ducks	.0252	.0041	.0293
Other Poultry	varies	varies	varies

a/ See Table 4.

b/ See Table 5.

TABLE 7

ESTIMATE OF SLAUGHTER PROCESSING AND ADMINISTRATIVE COSTS PER CARCASS

Species of Kind	Total Without Administrative Costs a/	Administrative Costs b/	Total Cost
Red Meat			
Cattle	$3.2198	$.0162	$3.2360
Calves	.7431	.0037	.7468
Hogs	.8927	.0045	.8972
Sheep/Lambs	.2838	.0014	.2852
Other	varies	varies	varies
Poultry			
Young Chickens	.0205	.00011	.0206
Mature Chickens	.0191	.00010	.0192
Turkeys	.1068	.00055	.1074
Ducks	.0293	.00015	.0295
Other	varies	varies	varies

a/ Table 6.

b/ The $1,505,300 administrative cost was proportionally allocated to the existing percentages of domestic inspection costs by sector. For example, red meat's $106,989,500 slaughter expenditure represents 35.8% of total domestic inspection costs. Thus, $538,850, or 35.8% of the approximate $1.5 million administrative and compliance costs were assigned to red meat slaughter. Once this allocation procedure was completed (red meat slaughter $538,850, poultry slaughter $464,170, red meat processing $426,930 and poultry processing $75,350) slaughter and processing costs for each sector were added together by sector and then divided by the number of pounds slaughtered by each sector. This yielded an administrative and compliance cost of about $.000026 per pound for red meat and about $.000035 per pound for poultry. These estimates were then multiplied to the average dressed weight per carcass to derive the estimates presented above. For example, cattle, at 624 pounds dressed weight multiplied by the $.000026 yielded an administrative cost of $.0162. The 3 pound chicken multiplied by $.000035 yielded an administrative cost of $.00011.

FIGURE 2

EXAMPLES OF USER FEE CALCULATIONS TO DETERMINE BILLS

Example I: During a 2 week reporting period, Establishment A slaughtered 24,000 cattle (line speed of 300 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities	$77,664.00
(billing rate per head)	($3.2360)
Total Inspection Bill for Establishment A	$77,664.00

Example II: During a 2 week reporting period, Establishment B slaughtered 6,000 cattle (line speed of 75 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities	$19,416.00
(billing rate per head)	($3.2360)
Total Inspection Bill for Establishment B	$19,416.00

Example III: During a 2 week reporting period, Establishment C slaughtered 48,000 swine (line speed of 600 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities	$43,065.60
(billing rate per head)	($.8972)
Total Inspection Bill for Establishment C	$43.065.60

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[a] Includes administrative costs associated with user fee system.

FIGURE 2 (continued)

Example IV: During a 2 week reporting period, Establishment D slaughtered 300 swine (line speed of 3.75 animals per hour).

	User Fee Bill a/
Bill for Slaughter and Processing Activities	$269.16
(billing rate per head)	($.8972)
Total Inspection Bill for Establishment D	$269.16

Example V: During a 2 week reporting period, Establishment E slaughtered 1,000,000 chickens.

	User Fee Bill a/
Bill for Slaughter and Processing Activities	$20,600.00
(billing rate per bird)	($.0206)
Total Inspection Bill for Establishment E	$20,600.00

Example VI: During a 2 week reporting period, Establishment F slaughtered 200,000 chickens.

	User Fee Bill a/
Bill for Slaughter and Processing Activities	$4,120.00
(billing rate per bird)	($.0206)
Total Inspection Bill for Establishment F	$4,120.00

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a/ Includes administrative costs associated with user fee system.

V. ASSESSING IMPORT INSPECTION USER FEES

The inspection acts require that meat and poultry products imported into the United States be inspected under a system at least equal to domestic requirements. This chapter examines two options for assessing a user fee charge for import inspection: a fee based on hours of inspection and fee based on pounds of imported product. Each option is defined and then evaluated against the equity and accountability criteria.

Background

Currently, the United States imports over 2 billion pounds of meat products each year representing approximately 8 percent of domestic consumption.[12/] In order to insure that imports meet U.S. requirements, the International Programs Division conducts two activities: (1) reviews foreign inspection programs and plants, and (2) inspects imported product at port-of-entry (POE).

On-site review of foreign inspection procedures and facilities is conducted by approximately 20 veterinary inspectors stationed in both the United States and abroad. These foreign program officers evaluate the equivalency of an

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12/ Data received from International Programs, FSIS, January 1986.

importing country's laws and regulations with those of the United States, determine the adequacy of the system, and conduct periodic reviews of plants certified to export to the United States.

Port-of-entry inspection is conducted by import inspectors with the help of a computerized system, the Automated Import Inspection System (AIIS). The system determines the intensity of inspection for each shipment based on a continuously updated history of compliance for that plant and product.

The Agency is proposing a user fee to be collected at the site of port-of-entry inspection. That user fee would cover the cost of on-site foreign inspection as well as the cost of POE inspection.

Evaluation of Assessment Options

Fee Based on Hours of Inspection

This user fee option is a charge based on the total time required to inspect a shipment of imported product. A shipment would be defined as the amount of imported product presented for inspection and documented on Form MP 410. This form is prepared by the importer and documents the product to be presented for inspection. Actual time to conduct the inspection would be the basis for determining the user fee: acceptance of product into commerce or rejection of the shipment would not be a factor.

An individual importer's fee would be determined by multiplying the actual hours of inspection by a set hourly rate. The hourly rate would be $48.47 (excluding administrative costs) based on FY 1984 data (see below):

Total 1984 import/inspection budget = $8.34 million
Total 1984 hours devoted to import inspection = 172,000 hours[13]
$8.34 million/172,000 hours = $48.47/hour

Each time import inspection is required, the importer would be billed at the rate of $48.47/hour for inspection services. This hourly rate would apply regardless of the number or size of lots, type of product, or country of origin. This rate is considerably higher than the estimated hourly fee for domestic slaughter or processing inspection because the rate must include the costs of foreign plant reviews. The estimated administrative costs of $3.74 per billing have not been incorporated into the above hourly charge because they would result in insignificant changes in the hourly charge.

This option rates high on equity. It reflects the distribution of inspection costs among import houses. Each importer would be treated equally; the same hourly fee would apply for inspection no matter what the kind of product or its origin.

As for accountability, import inspection assignments would not be affected by this type of user fee. The intensity of inspection for the subject lot would continue to be generated by the AIIS system, based on the country of origin, foreign plant, product type, and risk factors currently maintained by the system.

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[13] Data received from International Programs, FSIS, January 1986.

Another positive accountability factor associated with this option is that it reinforces inspection objectives in a positive fashion. The intensity of inspection is related to past history of compliance. Therefore, an importer who purchases products from a foreign plant with a good compliance history would be subject to less intensive inspection and have lower inspection charges than an importer who purchases products from a plant with a poor history.

Fee Based on Volume of Production

This user fee option is a charge to the importer based on the total number of pounds of imported product. The total amount of product is reported on the MP 410 which accompanies each shipment presented at the port of entry. Therefore, the sum of accepted and rejected product would be the basis for calculating the user fee charge.

The following calculations based on data from FY 1984 determine an individual importer's fee:

Total import budget = $8.34 million
Total pounds entering U.S. = 2,017.30 million
$8.34 million ÷ 2,017.3 million pounds = $.004 per pound of imported product

The figure $.004 would then be multiplied by the total pounds of imported product, regardless of type or origin, to determine the inspection user fees. The estimated administrative costs of $3.74 per billing have not been incorporated into the above hourly charge.

This option does not rate high on an equity basis. Pounds of product are not a good reflection of program benefits or a good measure of inspection resource requirements. In fact, several types of product may benefit unfairly from this approach, (i.e., high value products, low weight products, high inspection cost products and products from high risk countries).

This option rates high on accountability because the charge is not related to the intensity of inspection. This gives no incentive to the importer to pressure the Agency to reduce inspection. In addition, all necessary data is already recorded on the MP 410 form. This is an objective method that makes it easy to assure importers that they are paying only their fair share.

Recommended Assessment Option

Table 8 summarizes the two assessment options and rates each one according to equity and accountability criteria.

TABLE 8

ASSESSMENT OF USER FEE IMPORT OPTIONS

Options	Criteria	
	Equity	Accountability
Fee based on hours of inspection	High	High
Fee based on pounds of imported product	Low	High

The assessment option for import inspection recommended by the Agency is hours of inspection. This recommendation is based primarily on the basis of equity considerations.

Implementation

An import inspection user fee system would be relatively easy to implement and to operate since FSIS can use existing data bases and resources for administration and enforcement. With slight modifications to the Agency's Time and Attendence forms, data required for billing (inspectors time spent on a particular shipment) a specific import house could be easily ascertained. Spot reviews of hourly data could be made by existing supervisory staff. Any additional time required to fill out forms or review data would only marginally affect other inspector or supervisory activities.

Assuming that the Agency can coordinate billing activities for import inspection within current staff resource levels, the only major additional costs that would be necessary to support an import inspection user fee system would be those associated with the billing:

- Reporting forms would be shipped bi-weekly to field and headquarters locations (either individually or in bulk) and these forms will be shipped bi-weekly in bulk to NFC. The estimated average Agency handling, processing and postage cost associated with each bill would be about $.24.

- NFC would process each bill at an estimated average cost of $3.50.

The Agency estimates these costs would amount to approximately $3.74 per bill.

The Agency cannot estimate the number of bills that would be annually shipped to and from NFC since it is extremely difficult to estimate the average number of lots specific import houses may receive on a daily or bi-weekly basis. Under the worst billing rate scenario, where each import house receives at least one lot per bi-weekly period, a total annual administrative and compliance cost of about $29,000 ((300 import houses) x (26 billing periods) x ($3.74 per bill)) could be anticipated. A more realistic annual billing workload would probably be somewhat less than this.

As in domestic inspection, the funding mechanism that would be used to support this user fee system is the General Public Enterprise Revolving Fund; it is the same as described in Chapter IV. No Agency personnel will be involved in handling of funds.

DRAFT

NAME OF COMPANY, ESTABLISHMENT No.?
LOCATION (ADDRESS)

PARTIAL QUALITY CONTROL (PQC) PROGRAM FOR IRRADIATION OF FRESH (UNCURED), PREVIOUSLY FROZEN AND THAWED OR NONFROZEN, BOXED PORK

This PQC program (Coded # _?_ - to be supplied by USDA) provides the quality control procedures that Establishment No.? will implement. The following factors are the essential points that this PQC program covers:

* The irradiation of pork to a minimum absorbed dose of 30 krads and a maximum absorbed dose of 100 krads.

* Fresh (uncured), previously frozen and thawed or nonfrozen pork.

* Boxed pork (bulk packed or retail packed cuts, not ground product).

* The controlled shipment of product with a USDA sealed truck.

* Incoming product is fully labeled (i.e., the shipping containers and retail packages are labeled "Irradiated", no label information will be added or changes made to the label on the boxes of product at Establishment No.?).

* Incoming product is stacked on pallets according to a pre-determined arrangement.

* More than one kind of pork product can be on the shipment; however, the products cannot be co-mingled on the same pallet.

* The incoming boxes are each identified with a number to facilitate in a product recall.

* The incoming pallet loads of product are stretch wrapped or banded.

* There are no provisions for the re-boxing of product at Establishment No.?.

* A nonrefrigerated processing facility.

* A computer program designed to automatically control the time the product is exposed to the source.

Any changes in the procedures for any of the above stated factors will require Establishment No.? to submit to USDA a revised PQC program. No changes will be implemented until Establishment No.? receives an approval on the revised program.

I. Establishment No.? will be responsible for compliance with all applicable USDA regulation related to the irradiation of pork. Establishment No.? will be responsible for the compliance with the facility design, licensing, operator training, and radiation safety for company and USDA personnel (NOTE: Establishment No.? will supply USDA a description of the radiation safety procedures provided at the facility).

II. Quality Control Procedures For The Establishment Of Absorbed Dose Of A New Product And The Quality Control Procedures For The Routine Processing Of Product With An Established Absorbed Dose.

A. USDA NOTIFICATION OF THE SHIPMENT OF INCOMING PRODUCT.

The Quality Control Person (QCP) at THE ESTABLISHMENT (Establishment # _?_) will notify the USDA inspector, at least 24-hours in advance, of all loads expected to arrive at THE ESTABLISHMENT (Establishment # _?_). The QCP will also notify the USDA inspector of any loads expected to arrive on Saturdays, Sundays, or holidays. In addition, the QCP will notify the USDA inspector the date and the time of arrival of the shipment.

B. PRE-PROCESSING EVALUATIONS OF PRODUCT LOADED ON THE TRUCK.

Product shipped to THE ESTABLISHMENT will arrive by a refrigerated truck that has been sealed with a USDA seal. The product will have been shipped to THE ESTABLISHMENT from an establishment which has an approved PQC program for the controlled shipment of product.

1. USDA sealed truck procedures.

This method implies that only the USDA inspector has the authority to break and remove the USDA seal (See example _?_ for an example of a USDA seal) from the truck and sign the shipping papers. No employee of THE ESTABLISHMENT has the right to break, remove, or tamper with the USDA seal. Once the seal has been removed from the incoming shipment, the QCP will be responsible for the implementation of the processing procedures contained herein.

a. Essential information to be present on the bill of lading and to be evaluated by the QCP.

Upon arrival of the truck, the QCP will examine the information recorded on the bill of lading (a serially numbered printed shipping form) for the essential information which documents the contents of the truck. The following information must be present on the bill of lading; if, however, any of the information is missing, incomplete, or unclear the USDA inspector will appraise the situation. The QCP will document in the Irradiation logbook (See example _?_ for an example of the logbook) the following information.

1) The name of the product(s) in the shipment.

This is the label identification for the product. If more than one kind of product is present which is bearing a different label (NOTE: This applies to the label identification of the product, not the Brand name), then each kind of product will have to have the full name present.

a.a.) The name of the product will be checked against the Irradiation FORM (for product in which the absorbed dose has not been established; See example _?_ for an example of the FORM) or the PROTOCOL (for product in which the absorbed dose has been established; See example _?_ for an example of the PROTOCOL).

b.b.) If the name is not exactly as on the Irradiation FORM or the PROTOCOL, the USDA inspector will determine the appropriate name of the product (NOTE: When the name is different than the name provided for on the PROTOCOL, as determined by the USDA inspector, the load will be treated as a new product and a FORM will be used to establish the new absorbed dose).

2) Check for the total number of boxes in the shipment, for each product type.

3) Packaging Certification.

A statement must appear on the bill of lading which verifies that all materials coming into direct contact with the pork are approved for use in irradiation, and that records which verify the manufacturer's assurances of this are contained on file at the origin establishment (facility packaging the pork).

a.a.) Under no circumstance will the product be removed from the sealed truck without this certification. The USDA inspector will determine what action is to be taken.

b.b.) A list of the approved packaging materials is contained in example _?_ (This will be supplied by USDA).

4) Destination Certification.

A statement must appear on the bill of lading which verifies that the destination establishment (facility where the irradiated pork is to be shipped) is aware of the labeling and disposition responsibilities for the irradiated product (NOTE: This statement implies that when bulk packaged product is to be processed, the origin establishment has supplied inserts with the shipment or has made arrangements to have the inserts supplied at the destination establishment; procedures for this are contained in the origin establishment's approved PQC program).

a.a.) Under no circumstance will the product be removed from the sealed truck without this certification. The USDA inspector will determine what action is to be taken.

5) Check the USDA seal number (serial identification number).

6) Check for the signature (or initials) and the title of the QCP of the origin establishment.

7) Check the date the product was sealed in the truck.

b. Examination of the USDA seal on the truck.

1) The USDA inspector will determine if there are any irregularities with the seal, such as damage and

tampering.

2) The USDA inspector will determine that the seal numbers are the same as stated on the bill of lading.

c. Breaking and removing the USDA seal.

1) The USDA inspector will remove the seal. The broken seals will be retained by THE ESTABLISHMENT for cross reference for a minimum of 30 days.

d. Examining the interior of the truck by the QCP.

If any of the following appear to be questionable or unacceptable to the QCP, the USDA inspector will determine the action to be taken.

1) Visually evaluate the interior of the truck and the outer appearance of the product for general overall condition of the product.

a.a.) Normal odor (i.e., natural for fresh pork). Any off-odors (i.e., sour or rancid) would be indicative of mishandling of the product and, if very strong throughout the load, would be identified to the USDA inspector and documented in the Irradiation logbook. The origin establishment and/or the shipping company would be contacted by the Plant Superintendent to guard against future problems.

b.b.) Properly closed and undamaged boxes. Open boxes or boxes that are torn or broken would be indicative of mishandling of the product and, if obvious throughout the load, would be identified to the USDA inspector and documented in the Irradiation logbook. When a limited number of boxes are torn or broken and are repairable, the boxes will be reconditioned as directed by the USDA inspector (NOTE: THE ESTABLISHMENT is not capable of stenciling or relabeling unmarked boxes). The origin establishment and/or the shipping company would be contacted by the Plant Superintendent to guard against future problems.

c.c.) Excess moisture on the boxes or floor. This would be indicative of improper operation of the refrigeration unit or that the truck was sprayed with liquid prior to the loading of product. The situation would be identified to the USDA inspector and documented in the Irradiation logbook. The origin establishment and/or the shipping company would be contacted by the Plant Superintendent to guard against future problems.

d.d.) Leakage of blood from the boxes onto the floor or other boxes. This would be indicative of improper operation of the refrigeration unit (possibly freezing the product then thawing it) or that the product is not packaged in the proper packaging material to prevent this from happening. The situation would be identified to the USDA inspector and documented in the Irradiation logbook. Boxes may be opened on a limited basis and only as directed by the USDA inspector, to evaluate the proper inner packaging of the boxes. The origin establishment and/or the shipping company would be contacted by the Plant Superintendent to guard against future problems.

2) Evaluate the refrigeration unit and its performance in transit.

a.a.) Check to make sure the unit is working and remains on (except when turned off due to subfreezing temperatures as detailed elsewhere in this document).

b.b.) Make sure the boxes feel refrigerated (i.e., neither frozen nor warm).

1.1.) If the product appears to be outside of the acceptable temperature range of 32°F to 50°F, or as directed by the USDA inspector, a minimal number of boxes (at least two boxes on the outside of the pallet load will be selected from two different pallet loads located nearest the door; See example _?_ for an example of which boxes would be selected) will be opened on the truck and an average internal temperature of the product from at least three different locations within each box will be taken and recorded in the Irradiation logbook.

Any individual temperature reading above 50°F or less than 32°F will be identified to the USDA inspector.

1.2.) Calibration of all thermometers used for temperature control evaluations will be performed monthly according to the procedures outlined in example _?_.

c.c.) If the product has been under seal for more than four days from the date the truck was sealed at the origin establishment, internal temperatures will be taken according to the procedures outlined above regardless of the apparent working condition of the refrigeration unit or the "feel" of the boxes.

3) Check to see, as best as possible, that the pallet loads are properly marked without removing product from the truck.

a.a.) Make sure the pallet loads are marked with a pressure sensitive, self destructive sticker (See example _?_ for an example of the sticker, the sticker markings, and the color of the sticker) which indicates the product has not yet been irradiated.

1.1.) The sticker is of the kind which, if removal of the sticker is attempted, evidence of this attempted removal would remain on the box (i.e., the sticker would not come off in one intact piece)..

1.2.) The sticker is of a size and/or color which would be clearly visible when present.

1.3.) The sticker contains wording to the effect that "...product not irradiated" is present and clearly legible (NOTE: The boxes will be labeled "...irradiated...").

1.4.) The sticker is applied on a box, not the stretch wrap or band, on at least three faces of the pallet load (See example _?_ for an example of which boxes would be marded). One must be on the top of the pallet load and the other two must be on opposing sides to each other (NOTE: no stickers will appear on the bottom of the pallet load).

b.b.) Make sure the pallet loads are marked with a pressure sensitive, self destructive sticker and/or hand-marked with moisture proof ink (See example _?_ for an example of how the boxes would be marked and an example of the sticker, if applicable) which identifies the individual box numbers contained on the pallet load.

1.1.) The sticker is of the kind which, if removal of the sticker was attempted, evidence of this attempted removal would remain on the box. The hand-marked numbers must be legible.

1.2.) The sticker and/or hand-marked numbers are applied on at least one face of the pallet load (See example _?_ for an example of where this would occur). (NOTE: no stickers or markings will appear on the bottom of the pallet load). Stickers or markings may appear on a box, stretch wrap, or band.

1.3.) The sticker or hand-markings are a record of the individual box numbers contained on the pallet load (NOTE: These numbers may be used for tracking purposes, such as a product recall).

c.c.) Make sure the pallet loads are secured by a band(s) or stretch wrap.

1.1.) The boxes will be secured to prevent pallet load configurations from deviating and to help prevent damage to the boxes (which might occur if boxes fall and bust open).

1.2.) The band or stretch wrap should be sufficient to prevent any box from being removed from the pallet load without actually having to remove the wrap or band.

4) Initial the bill of lading.

a.a.) THE ESTABLISHMENT QCP will sign and/or initial the bill of lading when all the required and estimated information (at this point an estimate may be made on the box count) is presented and accounted for. (NOTE: All estimated recordings on the bill of lading will be noted as such and will be corrected once the final information is available.)

b.b.) Submit a copy of the bill of lading, initialed by THE ESTABLISHMENT QCP, to the USDA inspector.

5) Record the following records in the Irradiation logbook.

a.a.) Date and time of arrival of the shipment.

b.b.) USDA seal number.

c.c.) Pork product name and box label information (the FORM number or the PROTOCOL number may be used).

d.d.) Total number of boxes (at this point, the number of pallets may be recorded with an estimate of the boxes since the product is still loaded in the truck (NOTE: If an estimate is recorded, the record will indicate this and be changed to an accurate count when product is unloaded).

e.e.) Remarks (e.g., temperature of product, when measured, number of readings taken, and location of product evaluated; minor leakage of blood from boxes, USDA inspector actions on any deviations, etc.).

1.1.) In any instance in which the USDA inspector is to be notified regarding a deviation or inaccurate entry on the bill of lading, the QCP will document, in the Irradiation logbook, all actions taken by both the USDA inspector and the QCP.

f.f.) THE ESTABLISHMENT QCP's signature and/or initials.

2. USDA sealed truck procedures for the return of unsatisfactory product.

a. Product that is determined by the QCP to be unsatisfactory (including off-condition, mishandled, lacking in required documentation on the bill of lading, or improperly labeled) will be identified to the USDA inspector. If the USDA inspector determines that the shipment should be returned to the origin establishment, the USDA inspector will seal the truck with a USDA seal. No employee of THE ESTABLISHMENT is given the authority to break, remove, or tamper with the USDA seal.

C. PRE-PROCESSING EVALUATIONS OF PRODUCT BEING UNLOADED FROM THE TRUCK.

Product shipped to THE ESTABLISHMENT will be coming from another official establishment, prepared and shipped according to the procedures contained in a USDA approved PQC program at the origin establishment. The QCP will prepare the product for irradiation by performing the following evaluations. Some functions may be performed by other ESTABLISHMENT employees when designated by the QCP; however, the QCP will monitor all procedures and entries of documentation. The USDA inspector will be notified, as specified.

1. Unprocessed product preparation area, and processed product area.

Although the boxed pork product will in most cases be in closed containers throughout the preparation for processing and processing periods, all effort will be made to prevent the mixing of boxes of pork with other product (including other pork product) on the premise, the mixing of unprocessed and processed pork product (except when provided for in these procedures), and for jeopardizing the wholesomeness and safety of the pork product due to mishandling.

a. Limitations on the removal of product from the truck.

Boxed pork will not be removed from the truck under certain situations, mainly because the wholesomeness and safety of the pork product could be compromised by the presence of these materials.

1. The presence of unauthorized, hazardous material, marked or otherwise. (NOTE: All chemicals used in the preparation of dosimetry devices; indicator dyes; source material; material used in the processing of the pork product; and materials used for fire prevention, sanitizing, cleansing, etc., will be documented and submitted to USDA).

a.a.) There will be no unauthorized, hazardous chemicals or materials (boxed or otherwise) scheduled to be processed the same day as pork product.

b.b.) There will be no hazardous material stored in areas in which pork product would be handled, stationed (even if only temporarily), or transported through.

2) The presence of any product which is condemned, unwholesome, contaminated, or indicative of material which could contaminate the pork product if contact was made. Regardless that the pork will be boxed, precautions will be taken to avoid the presence of any questionable, unsanitary product in the area in which pork product will be located or transported.

a.a.) There will be no such product scheduled to be processed the same day as pork product.

b.b.) There will be no such material stored in areas in which pork product would be handled, stationed (even if only temporarily), or transported through.

3) The QCP will notify the USDA inspector of any incident in which any of the above mentioned materials may have been spilt or found to be leaking. Although the compounds may have been cleaned-up prior to the scheduling of pork product, the USDA inspector will be notified in case any residues may be present. All actions related to the incident, including the cleansing agents used to clean the hazardous material, will be documented in the _?_ logbook.

2. Truck unloading procedures.

Because the product is a perishable commodity and there is no refrigeration in the unprocessed product preparation area or the processed product area, the product will be kept in refrigerated storage (in the truck) until scheduled for immediate entrance into the irradiation chamber. Evaluations will be made on each pallet load leaving the truck. The following procedure will be used for the removal of product from the refrigerated truck.

a. Controls for the removal of product from the truck.

1) Product will be unloaded from the truck, as a pallet load, by a fork-lift machine.

2) Product will be unloaded from the truck left side first, then right side. There will be no exceptiors to this procedure unless the Shift Supervisor approves the deviation and records and signs the reason in the Irradiation logbook. The QCP will also initial the deviation in the logbook.

3) Product will be unloaded only as scheduled.

a.a.) No product will be held in the preparation area of the facility (See example _?_ for an diagram of the area) until scheduled for processing.

b.b.) Each pallet load will be evaluated for various factors prior to irradiation. Thus, the scheduling of each pallet load will allow for the evaluation time.

c.c.) Doors to the truck will be kept closed at all times except when product is being removed, returned, or when temperature checks are being performed (NOTE: Product will only be returned to the truck under certain conditions which are detailed elsewhere in the PQC program).

d.d.) The refrigeration unit on the truck will be monitored every 30-minutes to make sure it is running.

1.1.) One temperature reading will be taken inside the truck every 30-minutes. The thermometer will be positioned (by tape) on the inside of the left door and will remain there throughout the unloading and reloading of the truck.

1.2.) The temperature readings will be recorded in the Irradiation logbook by the QCP.

1.3.) When the internal temperature of the truck exceeds 50°F on any reading, the doors to the truck will be shut for a minimum of 15 minutes. When the internal temperature of the truck falls below 32°F on any reading, the refrigeration unit will be shut off for a period not to exceed 30-minutes. The QCP will record this information in the Irradiation logbook.

1.4.) The Supervisor will be immediately notified if the truck's refrigeration unit is not maintaining adequate refrigeration temperatures and he/she will make arrangements to get all product, contained on the truck, into a back-up refrigerated truck. The QCP will record the incident and actions taken in the Irradiation logbook. The QCP will notify the USDA inspector of the incident.

4) The time that product is removed from the truck for evaluation and processing will be recorded.

a.a.) The elapsed time that the product is exposed to nonrefrigerated temperatures is critical to the condition of the product. The QCP will record the time in the Irradiation logbook.

5) The ambient temperature of the preparation area will be recorded every 60-minutes throughout the processing of the pork product. The thermometer will be positioned (by tape) on the _?_ wall. The QCP will record the temperature in the Irradiation logbook.

6) The time period for the exposure of product to the nonrefrigerated temperatures of the preparation area will be kept to a minimum.

a.a.) No product will remain in a nonrefrigerated environment for more than 30-minutes when the ambient temperature of the preparation area is greater than 50°F or less than 80°F. The time limitation is taken from the time the pallet load is removed from the truck until it is placed on the transporter car and enters the irradiation chamber.

b.b.) No product will remain in a nonrefrigerated environment for more than 15-minutes when the ambient temperature of the preparation area is greater than 80°F.

c.c.) The QCP will monitor all time/temperature measurements for each pallet load and record the information and actions in the Irradiation logbook. Any pallet load of product affected by the above limitations will be placed back into the truck, one time only for this reason, and kept in the refrigerated truck for no less than 30-minutes. The QCP will record the actions taken on this pallet load, especially the time period in the truck after the temperature abuse incident. When rescheduled for irradiation, the pallet load will not be exposed to nonrefrigerated temperatures for more than 30-minutes maximum for the combined period of before and after irradiation (the time period is for the second unloading period). Processing time during irradiation does not count towards the time/temperature exposure period.

d.d.) If more than five pallet loads of product per truck load are time/temperature abused, a back-up refrigerated truck will be immediately provided for. The internal temperature of the back-up truck will be maintained at no higher than 45°F or no lower than 32°F on any of the temperature readings as performed for the original truck. Irradiated product will be placed on the back-up truck, not back onto the original truck. The USDA inspector will be notified of this action. The Supervisor will take action to prevent this situation from happening in the future.

b. Running talley of count.

A running count of the pallet loads will be made by the Superintendent as pallets are removed from the truck.

1) Replaced pallet loads.

The QCP will maintain separate records for any product placed back onto the truck in order that all pallet loads are accounted for. These records will be cross-checked against the Superintendent's records. All records will be recorded in the Irradiation logbook.

2) Final count of pallet loads.

A final pallet load count will be entered in the Irradiation logbook and the estimated pallet count on the bill of lading will be amended with an actual count.

a.a.) Any discrepancy in the counts will be reviewed and reported to the Supervisor. The USDA inspector will be informed of the discrepancy and actions taken to resolve the incident.

b.b.) The Superintendent will prepare the receiving ticket (See example _?_).

3. Pallet load evaluations.

Evaluations will be made by the QCP on at least one out of every ten pallet loads for each factor listed below and record the information in the Irradiation logbook (NOTE: When establishing the absorbed dose for a new product according to the FORM, the first three pallets will be checked for all the following factors. The sampling procedures will be as stated above for the pallet loads beginning after the third pallet load). All other pallet loads will be checked for for at least two of the factors (the factors will be randomly selected as the evaluations proceed).

a. Name of the pork product and label information (including the name of the origin establishment).

1) If any box on the pallet varies from the FORM or the PROTOCOL for this product, the Supervisor will be

immediately notified.

a.a.) The QCP will notify the USDA inspector of the situation to get a clarification on the appropriateness of the label that deviates.

1.1.) The Superintendent will mark the pallet load of product with a hold tag (See ? example _?_) and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided).

1.1.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before any irradiated product [of any type] leaves the facility (NOTE: See Section _?_ for "Tagged product").

1.2.) Any product that was irradiated and found to be inaccurately named or labeled will be marked according to the procedures for identifying product that has been irradiated, and retained as in (1.1) above. The Supervisor will be immediately notified.

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

b. Net weight per box.

1) If any box on the pallet varies from the FORM or the PROTOCOL for this product (i.e., outside of the net weight range specified in the protocol or, if no range is specified, more than +/- 5% from the specified net weight), the Supervisor will be immediately notified.

a.a.) The Superintendent will mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated tamperatures can be provided).

1.1.) The QCP will record the incident and actions taken into the logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before any irradiated product leaves the facility.

1.2.) Any product that was irradiated and found to have been outside of the net weight tolerance, will be marked according to the procedures for identifying product that has been irradiated, and retained. The Supervisor will be immediately notified.

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

c. Box dimension.

1) If any box on the pallet varies from the FORM or the PROTOCOL for this product (i.e., outside of the box dimension measurement as specified in the protocol or, if no range is specified, more than +/- 1% from the specified dimension), the Supervisor will be immediately notified.

a.a.) The Superintendent will mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided),

1.1.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before the any irradiated product leaves the facility.

1.2.) Any product that was irradiated and found to have been outside of the box dimension tolerance, will be marked according to the procedures for identifying product that has been irradiated, and retained. The Supervisor will be immediately notified.

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

d. Bulk density.

The bulk density is -- ?? g/cm^3 as figured by taking the total net weight [in pounds or grams ?] of all the boxes and dividing by the total volume which is figured by taking the total height [in inches or centimeters ?] of the boxes times the total width [in same measurement style as for height] of the boxes (See example _?_). This is a very critical step in the processing of the product.

1) If any box on the pallet varies from the FORM or the PROTOCOL for this product (i.e., outside of the bulk density requirement as specified in the protocol or, if no range is specified, more than +/- 10% from the specified bulk density), the Supervisor will be immediately notified.

a.a.) The Superintendent will mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided.

1.1.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before any irradiated product leaves the facility.

1.2.) Any product that was irradiated and found to have been outside of the bulk density tolerance, will be marked according to the procedures for identifying product that has been irradiated, and retained. The Supervisor will be immediately notified.

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

e. Number of boxes per pallet.

1) If the number of boxes on the pallet varies from the FORM or the PROTOCOL for this product, the Supervisor will be immediately notified.

a.a.) The Superintendent will mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided. The pallet load will be treated as a new product, thus requiring the establishment of an absorbed dose (See "Establishment of Absorbed Dose" procedures).

1.1.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before the any irradiated product leaves the facility.

1.2.) Any product that was irradiated and found to have had the incorrect number of boxes on the pallet, will be marked according to the procedures for identifying product that has been irradiated, and retained. The Supervisor will be immediately notified.

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

f. Pallet configuration of the boxes on the pallet.

1) If the pallet configuration varies from the FORM or the PROTOCOL for this product, the Supervisor will be immediately notified.

a.a.) The Superintendent will mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided).

1.1.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before the any irradiated product leaves the facility.

1.2.) Any product that was irradiated and found to have have been configured incorrectly on the pallet, will be marked according to the procedures for identifying product that has been irradiated, and retained. The Supervisor will be immediately notified.

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

g. Pallet dimension.

1) If any pallet varies from the FORM or the PROTOCOL for this product (i.e., outside of the pallet dimension measurement as specified in the protocol or, if no range is specified, more than +/- 1% from the specified dimension), the Supervisor will be immediately notified.

a.a.) The Superintendent will mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided).

1.1.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before any irradiated product leaves the facility.

1.2.) Any product that was irradiated and found to have been outside of the pallet dimension tolerance, will be marked according to the procedures for identifying product that has been irradiated, and retained. The Supervisor will be immediately notified.

1.3.) An incorrect pallet will not be switched with a correct pallet (in which the pallet is loaded with irradiated pork).

b.b.) The QCP will reevaluate all pallet loads of product beginning from the last acceptable pallet prior to the identification of the incorrect pallet load.

c.c.) The QCP will evaluate all pallet loads of product after the identification of the incorrect pallet load until no deviations are found in at least three consecutive pallet loads.

d.d.) The QCP will record the incident and actions taken into the Irradiation logbook.

e.e.) The QCP will return to sampling of at least one in every ten pallet loads.

4. Pallet load visual evaluations.

Visually examine each pallet load for evidence of blood stains, moisture leaks from the pallet or boxes, improper closure, and damage (including punctures through the box). Stains, leaks, and damage to the boxes could cause sanitation problems. The QCP will notify the Plant Superintendent about any boxes that fit into any of these situations.

a. Leaking boxes and boxes covered with moisture.

1) These boxes will be removed from the pallet; stretch wrapped to contain the leakage or placed in a bag (suitable for irradiation as certified by the manufacturer of the product on on file with the USDA inspector); and returned to the pallet. Provided that not more than 10% of the pallet load is rewrapped or bagged, the bulk density or other factors will not be affected significantly to alter the irradiation exposure time.

a.a.) If more than 10% of any pallet load is damaged, the Supervisor will be immediately notified.

1.1.) The Superintendent will immediately stretch wrap or bag the boxes of product (with material suitable for irradiation); mark the pallet load of product with a hold tag and place the pallet load in refrigerated storage (NOTE: The pallet load will only be placed back onto the truck of which it was unloaded until another refrigerated truck or refrigerated area capable of maintaining refrigerated temperatures can be provided).

1.2.) The QCP will record the incident and actions taken into the Irradiation logbook (NOTE: All product with a hold tag will be accounted for and its disposition known before the any irradiated product leaves the facility.

b.b.) Liquid or dried blood, product, or packaging material falling onto the floor during this process will be disposed of in an inedible container that is located away from the processing area.

5. Scheduling the product to be irradiated.

The Supervisor will schedule the pork for irradiation processing.

a. Scheduling.

The Supervisor will schedule the pork for irradiation by making an entry (on a single page) in the Irradiation logbook (See example ? _?_). This entry is the custormer run number (or lot number) assigned to the product.

1) Identification of the lot to be processed.

Each pallet within a lot (defined as one type of product, as identified on the FORM or the PROTOCOL, contained in one truckload), shall be assigned a customer run number (or lot number). This number identifies the lot in which the product is scheduled to be irradiated. The number is the same througnout an entire lot.

2) The customer run number (or lot number) increases by one number for each new lot of product irradiated. If there is a change in this procedure, the Supervisor will notify the USDA inspector prior to scheduling of pork to be irradiated.

3) The Irradiation logbook will be the official record for all customer run numbers (or lot numbers) used for any product irradiated in the facility.

4) If there is a change in the assignment of numbers, the Supervisor will notify the USDA inspector prior to the irradiation of pork product.

a.a.) If pork is found to have been incorrectly assigned a customer run number, the situation will be documented in the Irradiation logbook. The correct number will be applied over the incorrect number such that no part of the incorrect number is evident.

b) Placement of the customer r.n number.

The shift superintendent will place the customer run number on each pallet load.

1) The number, contained on pressure sensitive, adhesive paper, is placed on the upper, right corner of the box located at position _?_ (See example _?_) for each pallet load.

c) Production run arrangements.

The Supervisor will specify the number of runs and the number of pallet loads of pork to be processed per run, and a pallet load identification number which will correlate with the box numbers placed at the origin establishment.

1) All the sequential numbers, placed on each box at the origin establishment, for each pallet load will be recorded (as a pallet load group) in the Irradiation logbook in the same order as the pallet loads are scheduled to be irradiated,

2) A number, representing each pallet load, will be assigned by the Supervisor which will correlate with the pallet load group number and will be a definite means of identifying pallet loads and boxes of pork for recall purposes.

d) Establishment of the absorbed dose for a new product.

The following procedure will be used to establish the absorbed dose for a new product or for a pallet load of product which does not conform to the requirements outlined in the PROTOCOL (e.g., a pallet load with less than the required number of boxes, a pallet load with a bulk density outside of the tolerance, a pallet load with an incorrect pallet dimension or box dimension). A FORM will be used to document the information. This procedure will identify the maximum/minimum locations of a pallet load.

1) Placement of dosimeters.

a.a.) The dosimeters will be contained in a plastic bag, suitable for irradiation, to help prevent damaged dosimeters from coming into contact with the boxes.

b.b.) Each batch of dosimeters used in the irradiation of pork will be a DOSIMETER which has been predosed to MGRADS. A complete description of the dosimeter and the predosing procedure is contained in example _?_ (this has to be submitted by THE ESTABLISHMENT).

c.c.) Each batch of prepared DOSIMETERS will be identified by a batch number. Each new batch of dosimeters will be calibrated against the National Bureau of Standards (NBS) at least once each six-months. The results of such calibrations will be submitted to the USDA inspector. Any reading which is 5% or more from the NBS reading will necessitate another submission of a dosimeter to the NBS. Dosimeters can only be used from batches which are calibrated to less than 5% difference from the NBS standard.

d.d.) ? dosimeters will be placed on each of three pallet loads (See example _?_ for an example of where the dosimeters will be placed, including a complete discription of how the box positions and pallet faces are identified).

e.e.) For the rest of the procedure skip the next section "e)" and go to section "f)" and continue.

e) Placement of routine dosimeters (applicable only to product in which the absorbed dose has been established and documented in the PROTOCOL).

Routine dosimeters will be included within each lot of pork according to the following (NOTE: The procedure for the positioning of the dosimeters is identified in Section _?_; the procedure for re-applying the stretch wrap around the pallet load is located in Section _?_; and the procedure for verifying the correct configuration of the pallet load is located in _?_. This procedure will be implemented until sufficient data is generated which documents the accuracy, consistency, and repeatability of the established procedures, and is reviewed and approved by USDA.

1) Two dosimeters (one set) will be placed within the pallet load.

a.a.) One will be placed at the minimum absorbed dose location (as identified on the Service Irradiation protocol).

b.b.) One will be placed at the maximum absorbed dose location (as identified on the Service Irradiation protocol).

2) At least four dosimeter sets will be placed in the production run of each lot when the production run is 24 hours or less.

a.a.) One set will be placed in the first pallet load, one set will be place in the second pallet load, one set will be placed in the middle (or approximate middle) pallet load, and one set will be placed in the last pallet load of the production run.

3) For production runs of greater than 24 hours additional dosimeter sets will be included, such that one set is irradiated at least each 12 hours.

f) Inoperative dosimeters.

Should a dosimeter become inoperative and potentially come into contact with boxed pork product, the following action will be performed.

1) Boxed pork (with the pork contained inside a plastic bag, inside a box; or a wax coated box with or without a plastic bag inside) in which the dosimeter solution (made of the ? solution) comes onto contact with the exterior surface of the boxed pork (without coming into direct contact with the meat), or directly onto the pork product, would pose a possible health hazard. Any box of product in which solution could have come into contact with, will be disposed of in the inedible container which

is located apart from the processing area. The pallet load of remaining product will be tagged with a hold tag and retained. The incident will be documented in the Irradiation logbook.

2) When the dosimeter case (made of plastic and/or glass) becomes inoperative but the solution is not able to escape the dosimeter case, the plastic/glass will be removed from all product. Pork which comes into contact with the plastic/glass will be disposed of in the inedible container which is located apart from the processing area.

D. PRE-PROCESSING EVALUATIONS OF THE COMPUTER PROGRAM SYSTEM.

The central computer contains a computer program which is used to control the automatic transport of a pallet load of product into the irradiation chamber for the proper amount of dwell time. The central computer is operated by the Supervisor. The computer program is designed to control and verify the following:

An in-depth explanation, with supporting documentation, of the computer program (dated __/__/__) is contained in Appendix _?_ . Any alteration to the computer program and computer system will be submitted to the USDA inspector prior to the irradiation of any product governed by the approved PQC program.

The QCP will monitor the processing procedures of the product, in conjunction with the FORM or the PROTOCOL and the computer program which operates the system, by performing the following checks prior to allowing the pallet load of product to be placed on the transporter car.

E. PROCESSING PROCEDURE EVALUATIONS.

1. Production Run Loading Procedures.

The loading pattern of the product in the irradiation chamber affects the absorbed dose profile. This PQC program specifies one loading pattern to be used for pork product. A diagram of the movement and location of a at least four pallet loads of product on transporter cars is included (See example _?_), and provides clarification to the procedures outlined below.

a. The pallet load is placed on the transporter car (conveyor system).

1) At the beginning of each production run for each lot of pork product, there must be at least one empty transporter car between the first pallet load of pork product and the last pallet load of any other product from another lot. At the end of each production run for each lot of pork product, there must be at least one empty transporter car between the last pallet load of pork product and the first pallet load of any other product from another lot.

2) Side __?__ of the pallet load will always be facing towards the unprocessed area of the facility and side _?_ will always be facing away from the unprocessed area (See example _?_).

b. The QCP enters the FORM or the PROTOCOL number and customer run number for the product into the central computer.

c. The QCP enters the FORM or the PROTOCOL number and customer run number into the Irradiation logbook.

d. The QCP enters the FORM or the PROTOCOL number and customer run number (contained on the upper right hand corner of box __?__, Side _?_) into the entrance control box.

1) When the numbers are entered into the entrance control box and match and are confirmed by the central computer, the transporter car will proceed to move into the irradiation chamber.

a.a.) If the numbers do not agree, a warning statement appears on the entrance control box panel and the numbers are re-entered until the numbers are confirmed by the central computer.

b.b.) If the central computer does not accept the entrance control box numbers after three tries, the Supervisor is notified. The USDA inspector will be notified and the incident documented in the Irradiation logbook when the situation involves equipment malfunctioning or the reassignment of numbers to the lot.

2) The superintendent will set the irradiation run time clock (the name of which will be supplied by THE ESTABLISHMENT) to coincide with the computer program's run time (as previouly determined in the establishment of the absorbed dose and as recorded in the "Dwell Time" portion of the PROTOCOL).

a.a.) The shift superintendent will zero the CLOCKS (THE ESTABLISHMENT needs to supply the correct names of the clocks). The purpose of the CLOCKS is to _?_.

1.1.) All timer devices used in the facility will be calibrated semi-annually against the NBS recognized standard according to the procedures outlined in Example _?_.

3) The shift superintendent will record the time of the start of the run (according to the irradiation run clock), for each transporter car, into the Irradiation logbook and the Notebook (See example _?_). The start of the run begins when the front of the transporter car passes the _?_ point (to be identified by THE ESTABLISHMENT).

4) The superintendent will also record the reading of the REGISTER (THE ESTABLISHMENT needs to supply the name of the REGISTER at THE ESTABLISHMENT), for each transporter car, into the Irradiation logbook.

e. The central computer will automatically adjust the dwell time of the product due to the radiation decay factor of the SOURCE.

1) For product which has an established absorbed dose, the dwell time of the product (as contained in the PROTOCOL) will be increased by PERCENT per month beyond the date of the establishment of the absorbed dose.

a.a.) Regardless of the number of days in the month, the dwell time for the product will be automatically increased by the central computer program. The adjustment is based on the month and day of establishment of the absorbed dose, not the first day of each month.

f. Pork product will not be scheduled for irradiation if the estimated maximum normal run time for any pallet load of pork product will be 60-minutes or more. The time period begins when the front of the transporter car passes the _?_ point and ends when the front of the transporter car passes the _?_ point. The QCP will notify the USDA inspector of any production runs exceeding this requirement. The Supervisor will strengthen the source activity prior to the scheduling of pork if this situation might occur.

2. Production Run Establishment of the Absorbed Dose.

This procedure is not considered a production run interruption as identified in the next section. This procedure is such that the three pallet loads are exposed to the source in two parts: the first time is for a third of the total estimated time needed to obtain the minimum/maximum absorbed dose, the second time is to "top-off the remainded of the required absorbed dose.

a. The Supervisor will make a determination of the total time required for the absorbed dose by extrapolating the time from example _?_ which is a table that has been developed according to the procedures for commissioning the facility. From the curve, the total time can be predicted for the bulk density of the pallet load.

b. From this total time estimate, the Supervisor will determine what a third of the total time will be and establish this run time as the initial run time the three pallet loads will each receive. Each pallet load will pass through the irradiation chamber in the exact routine as a normal production run; however, the initial run time will be a third of the normal time.

c. The end of the run is when the front of the transporter car passes the _?_ point (to be identified by THE ESTABLISHMENT).

d. The superintendent will record the reading of the REGISTER (THE ESTABLISHMENT needs to supply the name of the REGISTER at THE ESTABLISHMENT), for each transporter car, into the Irradiation logbook.

e. Upon exiting from the irradiation chamber the dosimeters will be removed from the pallet load by the QCP and given to the Quality Control Department's laboratory designee. The QCP will initial the logbook (See example _?_).

1) The pallet load may be re-stretch wrapped or re-banded after removal of the dosimeters.

f. The dosimeters will be analyzed and recorded by the Quality Control Department according to the procedures outlined in example _?_. The results will be documented in the NOTEBOOK (See example _?_).

1) The results will be evaluated for comparison with the expected absorbed dose at a third of the time of exposure. Any deviation from the expected and the actual will be documented and reported to the

Supervisor for evaluation. Any correction factors in the remaining two-thirds of time of exposure will be documented. The exact amount of time required for exposure will be determined according to the correction factor (if the dosimeter readings require this) and the following formula (See example _?_ for an additional description of the procedure).

a.a.) The total run time and additional exposure time (top-off time) to achieve the desired dose are determined as follows:

total target dose (which is _?_ for the minimum and _?_ for the maximum) minus the partial dose (being the dosimeter measurement of a third of the time of exposure) equals the "top-off" time needed to obtain the proper dose.

g. The pallet loads will be returned to the irradiation chamber for the additional exposure to complete the total absorbed dose. When the pallet loads exit the irradiation chamber the second time, the dosimeters will be read again and the total exposure determined. The maximum/minimum ratio will be determined for each pallet load and will be within 1% of each other. Any deviation from this will be reported to the Supervisor of Irradiation and the reason for the variation determined. If no reason is found, the situation will be identified to the USDA inspector. The pallet loads will be reexamined for deviations. If no significant deviations are found, the lot not be processed. Boxes of product which are underexposed will be subjected to one more run through the irradiator (at a minimum of 30 krads absorbed dose; however, the total cummulative cannot exceed 100 krads). Any product so processed (i.e., over 100 krads will be tagged with a hold tag). The USDA inspector will be notified.

h. The average of the three pallet loads' maximum/minimum ratio (if within 1%) will be documented on the FORM and the rest of the lot will be processed according to routine procedures. All information on the FORM will be transferred to a PROTOCOL for this product.

i. The QCP will document in the Irradiation logbook that all irradiated product in the three pallet loads received an absorbed dose of at least 30 krads and that the maximum/minimum ratio is within 1% of the specified ratio. This documentation will be submitted to the USDA inspector.

3. Production Run Interruption Procedures.

It is conceivable that a production run could be interrupted due to such things as a mechanical breakdown of the equipment, a power failure, evidence of a portion of a pallet load falling off the transporter car inside the irradiation chamber, or evidence that a box of of pork product may have been leaking onto the floor or mechanical equipment inside the irradiation chamber. The USDA inspector will be notified of any production run interruptions. The QCP will document in the Irradiation logbook the time and date the interruption starts and stops, along with the actions taken to correct the situation and the handling of any product that was affected by the interruption. The Supervisor will determine the appropriate disposition of the pork product in the irradiation chamber (i.e., whether the interruption will be short-term or long-term, as described below).

In the event of a power failure or the process is manually interrupted, the source will be automatically lowered, the transporter cars will stop in place, and the cycle timer and clocks will stop running. When power is restored or the interruption is resolved, the source can be raised again and the transporter cars, cycle timer, and clocks will restart where they left off. The computerized system has a battery backup to insure that the information is non-volatile.

a. Short-term interruption. A short-term interruption is one in which the incident will require 30-minutes or less to resolve. In such situations, the source plaque will go "down" and the pork product will remain stationary in the irradiation chamber and on the transporter cars.

1) The Supervisor will determine the amount of partial gamma exposure each pallet load of product received. This will be done according to the following example (_?_ THE ESTABLISHMENT will supply the formula and procedure to be followed).

2) Once the incident is resolved, the source plaque

will come "up" and the remainder of the partial gamma exposure will be given for the amount of time determined above.

b. Long-term interruption. A long-term interruption is one in which the incident will require more than 30-minutes to resolve. In such situations, the source plaque will go "down" and the pork product will be removed from the irradiation chamber and transporter cars.

1) The Supervisor will determine the amount of partial gamma exposure each pallet load of product received. This will be done according to the example described in the "short-term interruption" above.

2) Each pallet load of product will be tagged with three self destructive, adhesive stickers. The stickers will be of a color which is in contrast to the stickers for the incoming, nonprocessed product and to the outgoing, processed product.

a.a.) The stickers will be placed over the incoming, nonprocessed product stickers.

b.b.) The stickers will identify that the pallet load has received a partial gamma exposure, the run number, the absorbed dose, the side which faced the source, and the exact location of the pallet load at the time of the interruption (See example _?_ for the method of identifying how the pallet load position will be noted).

3) The pallet load will be placed back onto the refrigerated truck in a manner in which these pallet loads will be the first ones removed when the interruption is resolved and in such a way as the stickers are easily identifyable.

4) When the interruption is resolved, the pallet loads will be returned to the transporter cars and relocated in the exact positions they were in at the time of the interruption. The source plaque will be raised "up" and the remainder of the partial gamma

exposure will be given.

5) If the interruption will require more than 24-hours to be resolved, all pallet loads of product affected will be tagged with a hold tag by the QCP. This product will not be further processed, pending the USDA inspector's appraisal of the situation.

4. Production Run Exiting Procedures, Time Measurements.

As each transporter car exits the irradiation chamber, the run time ends and the pork product contained within the pallet load will have received the correct absorbed dose.

a. The superintendent will record the time of the end of the run (according to the irradiation run clock), for each transporter car, into the Irradiation logbook and the Notebook . The end of the run is when the front of the transporter car passes the _?_ point (to be identified by THE ESTABLISHMENT).

b. The superintendent will record the reading of the REGISTER (THE ESTABLISHMENT needs to supply the name of the REGISTER at THE ESTABLISHMENT), for each transporter car, into the Irradiation logbook.

c. The QCP will notify the Supervisor and the USDA inspector if the production run time deviates more than 5% from the specified run time (the dwell time includes the decay factor of 1.025% per month beyond the date of establishing the absorbed dose).

1) In instances in which the run time deviates from the specified run time by more than 5%, the QCP will determine the absorbed dose the product received. This determination will be calculated using the following formula and detailed in example _?_.

a.a.) Any box of product determined to have received an absorbed dose of less than 30 krads will be removed from the pallet load, tagged with a hold tag, and placed in refrigerated storage until the end of the lot. At the end of the processing of the lot, a pallet will be loaded with all boxes from the lot which did not receive at least 30 krads and processed according to the procedures for "Unconventional Pallet Loads". All actions will be recorded in the Irradiation logbook. If 1% or more of the lot is determined to have received an absorbed dose of less than 30 krads, the USDA inspector will be notified. The Supervisor will determine the cause of the underprocessing and the processing of pork product will be halted until the cause is determined.

b.b.) Any box of product determined to have received an absorbed dose of more than 100 krads will be recorded in the Irradiation logbook. A record will be kept of the total number of boxes in the lot which received more than 100 krads and the amount of absorbed dose each box received. When 1% or more of the lot is determined to have received more than 100 krads, the QCP will notify the USDA inspector. The truck containing the irradiated pork product will not be allowed to leave the facility until the USDA inspector has appraised the situation. If the truck leaves before the USDA inspector has appraised the situation, the recall procedures will be implemented (See the section on "Recall" procedures.

d. A computer print-out, containing the run times for all the pallet loads of pork product within the lot, the customer job number, the lot number, and the run number will be stapled into the Notebook (See example _?_). The print-out will be initialed by the superintendent.

5. Production Run Exiting Procedures, Dosimeter Measurements.

Although the time the product is exposed to the source will be the major method of knowing what the actual absorbed dose is for each pallet load, dosimeters will be included in each lot of product and will be analyzed upon exiting from the irradiation chamber. The results of the analyses will be used to support the time method for determination of absorbed dose received by the product. Also, the dosimeter readings will be used to determine the release of the truck containing the pork product.

a. The dosimeters will be removed from the pallet load by the QCP and given to the Quality Control Department's laboratory designee. The QCP will initial the logbook (See example _?_).

1) The pallet load may be re-stretch wrapped or re-banded after removal of the dosimeters.

b. The dosimeters will be analyzed and recorded by the Quality Control Department according to the procedures outlined in example _?_. The results will be documented in the Notebook (See example _?_).

1) The maximum/minimum ratio will be determined for each set of dosimeters (per pallet load). The ratio will be within 1% of the specified ratio or else the Supervisor will be notified to resolve the situation. All actions will be recorded in the Irradiation logbook.

2) The absorbed dose will be calculated for each box on the pallet load. Any box outside of the 30 to 100 krad range will be treated as stated previously. The disposition of the product processed between dosimeter readings will be dependent upon the latest dosimeter reading.

b. The QCP will document in the Irradiation logbook that all irradiated product in the lot has received an absorbed dose of at least 30 krads and that the maximum/minimum ratio is within 1% of the specified ratio. This documentation will be submitted to the USDA inspector.

E. POST-PROCESSING PROCEDURES.

1. Time/Temperature limitations for irradiated product.

Because the product is a perishable commodity and there is no refrigeration in the processed product area, the product will be placed in the refrigerated truck as soon as possible.

a. No product will remain in a nonrefrigerated environment for more than 30-minutes when the ambient temperature of the preparation area is greater than 50°F or less than 80°F. The time limitation is taken from the time the pallet load exits from the irradiation chamber on the transporter car to the time the pallet load is placed back on the truck.

b. No product will remain in a nonrefrigerated environment for more than 15-minutes when the ambient temperature of the preparation area is greater than 80°F.

c. The QCP will monitor all time/temperature measurements for each pallet load and record the information and actions in the Irradiation logbook.

d. If there is no room on the truck for the irradiated pallet loads (due to the fact that not all the pallet loads on the left side of the truck are not yet removed), then a back-up refrigerated truck will be immediately provided for. The internal temperature of the back-up truck will be maintained at no higher than 45°F or no lower than 32°F on any of the temperature readings as performed for the original truck.

2. Application of the sticker to identify that the pallet load has been irradiated.

Pallet loads of product that have been properly processed will be identified by a sticker that indicates the product has been irradiated (NOTE: All boxes will have been labeled as irradiated; however, the pallet load contains a sticker that indicates the process has not been done yet). Thus, the previous sticker will be replaced by the new sticker.

a. Each pallet load will have the new pressure sensitive, self destructive sticker (See example _?_ for an example of the sticker, the sticker markings, and the color of the sticker) which indicates the product has been irradiated placed over the top of the incoming sticker.

1) The sticker is of the kind which, if removal of the sticker is attempted, evidence of this attempted removal would remain on the box (i.e., the sticker would not come off in one intact piece).

2) The sticker is of a size and/or color which would be clearly visible when present and must be of a color in contrast to the incoming sticker.

3) The sticker contains wording to the effect that "...product is irradiated" is present and clearly legible (NOTE: The boxes will also be labeled "...irradiated...").

4) The sticker may be applied on a box or the stretch wrap or band, on at least three faces of the pallet load (See example _?_ for an example of which boxes would be marked). One must be on the top of the pallet load and the other two must be on opposing sides to each other (NOTE: no stickers will appear on the bottom of the pallet load).

3. Running talley of the count.

A running count of the boxes will be made by the Superintendent as pallet loads are loaded back onto the truck. The final count will be recorded on the bill of lading. Any discrepancies between the count of unloaded boxes and the count of loaded boxes will be resolved and documented by the Superintendent.

a. A record of the box number contained on each pallet load will be kept along with the running count.

4. Re-loading of processed product onto the truck.

a. Product will be loaded onto the truck, as a pallet load, by a fork-lift machine.

b. Product will be loaded into the truck left side first, then right side. There will be no exceptions to this procedure unless the Supervisor approves the

THURSDAY, MARCH 13, 1986.

AGRICULTURAL COOPERATIVE SERVICE

WITNESSES

ALAN TRACY, ACTING ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

RANDALL E. TORGERSON, ADMINISTRATOR, AGRICULTURAL COOPERATIVE SERVICE

JACK H. ARMSTRONG, DEPUTY ADMINISTRATOR, AGRICULTURAL COOPERATIVE SERVICE

SAMUEL V. LADD, DIRECTOR, BUDGET AND ACCOUNTING DIVISION, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION

Mr. WHITTEN. We now come to the Agricultural Cooperative Service. We have Mr. Tracy, back again with Mr. Torgerson, Mr. Armstrong, Mr. Ladd and Mr. Dewhurst. I notice this year, we have heard from Mr. Dewhurst less than usual. You can volunteer and answer any time you wish to Mr. Dewhurst.

You might proceed with your statements Mr. Tracy.

Mr. TRACY. Mr. Chairman, I am pleased to introduce Randy Torgerson, who will introduce his staff.

Mr. TORGERSON. Thank you. Mr. Chairman, joining me today are our Deputy Administrator, Dr. Jack Armstrong, and Mr. Samuel V. Ladd from the Budget and Accounting Division of APHIS which provides administrative services to our agency.

Mr. WHITTEN. All right, proceed.

Mr. TORGERSON. Thank you. With your permission, Mr. Chairman, we would like to briefly highlight our testimony in very brief fashion this morning.

Mr. WHITTEN. I do not see much to highlight. [Laughter.]

If you do not get user fees, you will just be out of business. How do you highlight that?

Mr. TORGERSON. We will attempt to highlight with what our program is about, if that is okay.

Mr. WHITTEN. You have not made arrangements to transfer to the military or foreign aid, have you?

Mr. TORGERSON. No, we have not at this point.

Mr. WHITTEN. Go ahead.

AGENCY OBJECTIVES

Mr. TORGERSON. The Agricultural Cooperative Service is the Department's focal point for providing research, technical assistance,

assistance in developing new cooperatives, and education on farmer-owned cooperatives throughout the nation.

We help existing cooperatives improve their efficiency and effectiveness of operations and assist new cooperatives to get a good start.

The agency's program, Mr. Chairman, is comprised of five basic parts. This includes technical assistance, new cooperative development, a research program, collection of cooperative statistics, and cooperative education and information.

STATUS OF COOPERATIVES

Our latest available data is for the year 1984. In that year there were a total of 5,782 marketing, farm supply and related service cooperatives operating with combined sales of about $73 billion. Cooperative memberships were 4.8 million, indicating that many farmers belong to more than one cooperative.

As a reflection of the general economic difficulties in the agriculture sector, the number of cooperatives reporting losses increased from 702 in 1983 to 984 in 1984, or 12 and 17 percent of all cooperatives, respectively. Some major losses have been reported in 1985 by individual regional, as well as local, organizations. Since cooperatives are integrally linked to the well-being of their farmer members, the poorer performance reflects continued difficulties in production agriculture.

Producers continue to look to their cooperatives to be efficient and effective instruments for them in the marketplace. The number of mergers, consolidations and dissolutions has increased and is reflected in the decrease of 207 cooperatively owned businesses between 1983 and 1984.

AGENCY ACTIVITIES

During the past year the agency provided technical assistance to 83 cooperatives and producer groups through 62 separate projects. Forty-two of these projects involved emerging or developing cooperatives, serving a total membership of almost 4,000 producers.

The projects involved cooperatives located in 30 different states. They ranged from grape growers in New York, to vegetable growers in the South, to grain growers in Oklahoma, to dendrobium growers in the State of Hawaii.

The agency's research program provides timely and relevant information to managers and directors of the nation's cooperatives on a variety of subjects associated with the environment in which we are dealing.

The agency continually evaluates and updates our research plans, so that the most pressing issues of concern to cooperatives are addressed. Currently we have 70 different research projects underway.

Results of our research and technical assistance work are highlighted in our monthly magazine called Farmer Cooperatives, which is now in its 51st year of publication. This publication is aimed at directors and managers of cooperative associations, of which more than 90 percent have annual sales of less than $15 million annually.

BUDGET REQUEST

To conduct our agency's activities during fiscal year 1987, we have a ceiling of 64 staff years. The ACS budget request for fiscal '87 is $3,698,000, which is $972,000 less than the agency's fiscal '86 level.

Components of the budget request are the reduction of research on cooperatives in the amount of $972,000, which will be taken in various program sectors, and a shift of the ACS program to be totally funded through user fees. Legislation has been prepared to provide that the beneficiaries of the agency's services pay for them. A system of charges is being developed.

As soon as legislation is passed and our user fee program is approved, we are then in a position to implement this program.

Thank you for the opportunity of presenting these highlights, Mr. Chairman.

[CLERK'S NOTE.—The full text of Mr. Torgersons prepared statement appears on pages 319 through 324. The explanatory notes appear on pages 325 through 343.]

AGENCY RESPONSIBILITIES

Mr. WHITTEN. We may have some written questions for you to answer for the record. But what I wish you to do now is to put in the record what you do.

Evidently, we are going to have a job holding your agency, in the event you don't get user fees. And you have not introduced the necessary legislation. The new fiscal year begins October 1st. The budget came down in January. You have not introduced or had hearings on this user fee authorization.

Mr. TORGERSON. Yes, sir.

Mr. WHITTEN. If we do not provide the money, you will be out of business. To provide the money, we need to go to the House and tell what you do. So I am giving you the chance, in detail, to spell out what you do.

Mr. TORGERSON. Okay.

Mr. WHITTEN. We presume everybody knows what you do, and we presume we know too.

Mr. TORGERSON. Sure.

Mr. WHITTEN. But put it in the record so we can use it on the floor.

Mr. TORGERSON. We will be happy to, Mr. Chairman.

[CLERK'S NOTE.—The information requested appears on pages 344 through 389.]

Mr. WHITTEN. I have an idea what it does, and I know that they render great service in many, many ways. Perhaps we could get by, to some degree, without the same level of assistance. But to impose user fees at a time when the farmer needs all sorts of assistance and sympathy is unwise.

I find that FmHA approved only six loans in my county for farming this year. The FmHA has said it cannot handle these loans that it is set up to handle. There have been over 100,000 farmers borrowing from other sources who need FmHA help. The head of FmHA says he cannot handle it.

In prior years, some have said that the answer was to create cooperatives. And I venture that if they could do it on a sizable scale, it might be possible.

But farmers do need the help. And also need you to spell out what you do, in detail, for those that do not know. When we go to the floor, we will need that.

Mr. TORGERSON. Certainly.

LESSEN AGRICULTURAL BURDEN

Mr. WHITTEN. At a time when farmers are going broke and cooperatives are losing millions, particularly because of faulty government policy, wouldn't it seem logical to try to lessen the burden to agricultural concerns rather than reducing research on trade issues and instituting user fees?

Mr. TORGERSON. The Administration believes that cooperative research is low priority, and that in the case of the Agricultural Cooperative Service, users of the Agency's services, in so far as possible, should pay for them.

COOPERATIVE RESEARCH

Mr. WHITTEN. What research projects do you propose in fiscal year 1986?

Mr. TORGERSON. I will provide for the record the projects which were identified in the Agency's annual program review process as potential projects for initiation in Fiscal Year 1986. Some of these projects will be funded through cooperative research agreements and others will be conducted internally. A portion of these projects will be deferred until later years as resources permit.

[The information follows:]

Legal and economic evaluation of cooperative bargaining.
Summary of trends in cooperative finance.
Effects of financial stress on cooperatives.
Alternative equity financing methods and ownership arrangements.
Impact of tax laws and decisions on cooperative members.
Development of measures for evaluating cooperative agreement performance.
A case study of California Canners and Growers.
The extent and type of research conducted by cooperatives.
Farm size attitudes towards cooperatives, member participation.
Techniques for assessing member needs.
Techniques for member leadership identification in cooperatives.
University-industry cooperative research centers: a practice manual for cooperatives.
Assessing cooperative responsiveness to the changing structure of agriculture.
Rail contract negotiations-terms and strategy for farmer cooperatives.
The influence of change in agriculture on cooperative-member relations.
Short line rail operation.
Transportation law and farmer cooperatives.
Competitive changes and their effect on the structure of cooperative organizations.
Cooperative historical statistics, by States.
The role of cooperatives in the fruit, nut, and vegetable subsectors.
Operating problems of fruit and vegetable cooperatives.
Cooperative marketing arrangements of dry beans and peas.
Marketing and transportation of grain by local cooperatives.
Role of cooperatives in rice marketing.
The role of cooperatives in price discovery.
Coordinated marketing for fruit and vegetable cooperatives.

Value added concepts effects on centralized and federated grain and farm supply cooperatives.

Financial requirements and capital formation procedures of fruit and vegetable cooperatives.

Dairy cooperative operations in a market-oriented pricing environment.

Alternative structures for large dairy cooperatives.

Marketing operations of dairy cooperatives—data base development.

The future role of artificial insemination cooperatives.

Role of cooperatives in feed manufacturing.

Servicing large and small farms; a study of equity issues.

Country market and product analysis for fruits, nuts, and vegetables.

Alternative export marketing strategies.

Costs of selected trade functions.

Models of typical export companies.

Exports by cooperatives.

Protectionist policies and trade.

Foreign sales corporations.

Develop market research capabilities in foreign countries.

A system for evaluating the potential for new cooperatives.

An assessment of awareness of ACS development programs among rural resource personnel.

Mr. WHITTEN. Would your fiscal year 1987 budget interrupt any ongoing research activity? Please list them for the record.

[The information follows:]

The fiscal 1987 budget would result in the elimination of all internal research work by the Agency. Projects funded under cooperative research agreements in fiscal year 1986 or earlier would continue until completed. Internal projects that would be eliminated would include the following plus any internal projects initiated in fiscal year 1986:

[The information follows:]

Analytical model of the cooperative dairy sector.

Impact analysis of the fertilizer industry.

Supply operations of major regional cooperatives, 1985.

Cooperative role in fertilizer manufacturing and marketing.

Role of cooperatives in agricultural chemicals.

Top 100 cooperative's annual financial profile.

Treatise on farmer cooperative law.

Internal legal-economic analysis of the cooperative enterprise.

The effect of changes in farming patterns on cooperatives.

Determinates of goal selection among 60 agricultural cooperative leaders.

Farmer cooperative statistics.

Mr. WHITTEN. Since the Administration has publicly gone on record for expanded international trade, why is the Agricultural Cooperative Service proposing to significantly reduce research on this issue?

Mr. TORGERSON. Again, the administration believes this research is low priority. Due to employment limitations, most of our research is done through cooperative research agreements with various colleges and universities. We have three staff persons working in the international trade area and most of their time is devoted to technical assistance requests from cooperatives.

IMPACT OF LOWER FARM INCOME ON CO-OPS

Mr. WHITTEN. Farm income is at its lowest point since the Depression. What impact is that having on the cooperatives?

Mr. TORGERSON. Cooperatives, like their farmer members, have been adversely affected by low commodity prices, weak export demand, and, until recently, high interest rates. The general agricultural situation and lower farm income during the past five years have resulted in lowered net margins and return on assets of farmer cooperatives. Many cooperatives—more than 17 percent of all farmer cooperatives in 1984—including some of the largest, have suffered operating losses. A number of cooperatives have been forced out of business, into merger, or acquired by other businesses. Low farm income also has stressed cooperatives through accounts receivable problems. The poor financial condition of many farmers has made it difficult for them to pay their bills. The result has been for farmers to extend their accounts receivable forcing cooperatives in some cases to write them off as uncollectable accounts. To deal with problems resulting from farm income, cooperatives, especially grain marketing cooperatives, have emphasized restructuring and reducing expenditures through sales of marginal assets, deferring capital expenditures, and reducing operating costs through reduction in employees and services.

[Additional information follows:]

Trends for 1980 through 1984 are shown in the following table.

ALL U.S. FARMER COOPERATIVES

[Dollars in billions]

Year	Farm income [1]	Sales [2]	Net margins	Assets	Return on assets (percent)
1980	$20.2	$66.3	$1.94	29.4	6.6
1981	29.8	71.5	1.44	28.8	5.0
1982	24.6	69.2	.85	28.5	3.0
1983	15.0	66.8	1.06	28.8	3.7
1984	34.5	73.0	1.01	29.2	3.5

[1] Source: "Economic Indicators of the Farm Sector; National Financial Summary, 1984," NED, ERS, USDA, Washington, D.C., January 1986, p. 11.

[2] Excludes intercooperative business.

COOPERATIVE INSOLVENCIES

Mr. **Whitten**. Have any cooperatives declared insolvency in fiscal year 1985 and if so how many?

Mr. **Torgerson**. We do not have data on cooperatives that declared insolvency in fiscal year 1985. However, in the last year, ACS dropped 281 cooperatives from its mailing list. These cooperatives were dropped from the list for various reasons—dissolution, merger or consolidation, acquisition, no longer operating as a cooperative, inactive, or other. According to data collected for 1984, a number of cooperatives were approaching insolvency prior to 1985. In 1984, 336 cooperatives with a net worth to asset ratio of 40 percent or less had total assets of $2.1 billion, net worth of only $510 million, and losses totaling $115 million.

FIVE-YEAR COOPERATIVE HISTORY

Mr. **Whitten**. Please provide a chart showing the five-year history of the number of cooperatives and the number of losses for each of those fiscal years.

[The information follows:]

Year	Number of cooperatives	Number with losses [1]
1982	6,125	695
1983	5,989	702
1984	5,782	984

[1] Data on number of cooperatives with losses are not available for other years. Data for 1985 is being collected.

FARM COOPERATIVE NET MARGINS AND ASSETS

Mr. WHITTEN. Please provide for the record an update of the chart like the one on page 5 of last year's hearing record.

[The information follows:]

FARMER COOPERATIVE NET MARGINS AND ASSETS

[Dollars in millions]

Year	Number of co-ops	Net margins	Assets	Return on assets (percent)
1954	$10,072	$332	$3,351	9.9
1962	9,039	525	5,323	9.9
1970	7,995	478	8,477	5.6
1976	7,535	1,844	18,554	9.9
1977	6,736	1,346	18,940	7.1
1979	6,445	1,556	25,153	6.2
1980	6,293	1,944	29,416	6.6
1981	6,211	1,440	28,840	5.0
1982	6,125	854	28,553	3.0
1983	5,989	1,055	28,810	3.7
1984	5,782	1,009	29,182	3.5

COOPERATIVE LOSSES

Mr. WHITTEN. Last year you told us that 84 cooperatives went out of business in 1983. What was the actual total for 1984 and 1985?

Mr. TORGERSON. According to detailed data obtained to maintain ACS's list of cooperatives, in 1984, 86 cooperatives went out of business, 38 merged or consolidated with others, 42 were sold, and the remaining cooperatives were dropped from ACS's list for other reasons such as no longer operating as a cooperative, inactive, or misidentified as a cooperative. Data for 1985 is not yet available.

COOPERATIVES BY STATE

Mr. WHITTEN. Would you please provide for the record a list of farmer cooperatives by State?

[The information follows:]

NUMBER OF U.S. FARMER COOPERATIVES, BY STATE, MARCH 1, 1986

State	Number [1]
Alabama	80
Alaska	1
Arizona	14
Arkansas	109

NUMBER OF U.S. FARMER COOPERATIVES, BY STATE, MARCH 1, 1986—Continued

State	Number [1]
California	233
Colorado	76
Connecticut	5
Delaware	5
Florida	55
Georgia	21
Hawaii	24
Idaho	63
Illinois	272
Indiana	82
Iowa	338
Kansas	226
Kentucky	62
Louisiana	77
Maine	5
Maryland	28
Massachusetts	17
Michigan	103
Minnesota	602
Mississippi	138
Missouri	110
Montana	123
Nebraska	241
Nevada	4
New Hampshire	3
New Jersey	21
New Mexico	18
New York	205
North Carolina	34
North Dakota	379
Ohio	155
Oklahoma	133
Oregon	52
Pennsylvania	82
Rhode Island	1
South Carolina	7
South Dakota	226
Tennessee	99
Texas	402
Utah	37
Vermont	6
Virginia	103
Washington	120
West Virginia	45
Wisconsin	346
Wyoming	20
Total	5,608

[1] Number of cooperatives with headquarters in State.

COOPERATIVES ESTABLISHED IN FY 1985

Mr. WHITTEN. How many cooperatives did you help establish in fiscal year 1985? Please list by name and location.

Mr. TORGERSON. ACS staff helped establish three new cooperatives in fiscal year 1985. Tri-County Alfalfa Cooperative, Union City, Tennessee; Virginia Winery Cooperative, Culpeper, Virginia; and New York Grape Country Cooperative, Pulteney, New York.

REQUESTS FOR TECHNICAL ASSISTANCE

Mr. WHITTEN. Please list for fiscal year 1985, the number and nature of requests for technical assistance, the service received, and what action you took on each.

Mr. TORGERSON. The Agency received thirty-nine requests for technical assistance in fiscal year 1985. Twenty-three of these requests were from emerging and developing cooperatives regarding the evaluation of new facilities, marketing plans, and manager and director training assistance. Sixteen requests were from existing cooperatives and cooperative associations and involved plant cost studies, mergers, transportation issues, operation of export management companies, and planning assistance. These existing cooperatives were involved in the following commodity sectors: dairy, farm supplies, petroleum, grain, fruits and vegetables; and State and national cooperative associations. Six requests were deferred and two denied.

OUTSIDE PROGRAM REVIEW

Mr. WHITTEN. Please submit for the record a copy of the most recent outside program review for the Agricultural Cooperative Service.

Mr. TORGERSON. We are pleased to provide a copy of our most recent review for the record.

[CLERK'S NOTE.—The Review appears on pages 390 through 411.]

ACS CONTRACTS AND AGREEMENTS

Mr. WHITTEN. Please list all actual and planned contracts for fiscal years 1985, 1986, and 1987, and the purpose of each contract.

[The information follows:]

ACTUAL CONTRACTS AND AGREEMENTS FY 1985

1. Oregon State University, "Big Versus Small Co-ops."
2. University of Connecticut, "Performance of Dairy Farms."
3. University of Hawaii, "Supply/Demand Coordination by Fruit and Vegetable Cooperatives."
4. University of Missouri, "Appropriate Role for Local Cooperatives."
5. Purdue University, "Local Cooperative Competition."
6. Cornell University, "Cheese Plant Costs."
7. Michigan State University, "Performance of Economic Coordination Function by Farmer Cooperatives."
8. Auburn University, "Imperfect Competition and Producer Cooperative: The Case of the West Alabama Catfish Industry."
9. University of Nebraska, "Effective Cooperation in Local Farm Supply and Grain Marketing Operations."
10. University of Nebraska, "Economic Analysis of Factors Associated with Financial Success of Farmer Cooperatives."
11. University of Kentucky, "Bio-technology and Agriculture Cooperatives."
12. University of Arkansas, "The Status of an Agriculture Cooperative when a Member Goes Bankrupt."
13. University of Missouri, "Legal Considerations in Local Cooperative Mergers, Reorganizations, and Acquisitions."
14. Virginia Polytechnic Institute and State University, "Expansion of Microcomputer and Other Potential Federation Services for Southern Vegetable Marketing Cooperatives."
15. Cornell University, "An Evaluation of the Market Potential and Alternatives Facing a New Grape Producer Cooperative in New York State."

16. North Carolina A&T University, "Critical Factors Contributing to the Succes or Failure of Emerging Cooperatives."
17. University of California, "Factors Critical to the Success of Emerging Agricuture Cooperatives."
18. University of Vermont, "Development and Promotion of Cooperative Enterprises with Recreation Market Potential."
19. American Institute of Cooperation, "Cooperative Live-Text Video."
20. Purdue University, "Processing of NCR-140 Symposium."
21. Office of Governmental and Public Affairs, "Electronic Mail."
22. Animal and Plant Health Inspection Service, "Administrative Services."
23. Statistical Reporting Service, "Processing Data Used for Annual Statistics of Farmer Cooperatives."
24. Washington Computer Center, "Data Processing."
25. Cooperative State Research Service, "ACS share of USDA Small Business Innovation Research Program."
26. Board of County Commissioners, "North Carolina Field Office."
27. Cumberland Valley Area Development District, "Kentucky Field Office."

ACTUAL AND PROPOSED CONTRACTS AND AGREEMENTS FY 1986

1. University of Connecticut, "Alternative Ways of Adjusting for Member Opportunity Costs in Raising Cooperative Equity."
2. Cornell University, "Characteristics of Managers Operating Successful Cooperatives."
3. Iowa State University, "Alternative Methods of Increasing Cooperative Equity Capital."
4. University of Missouri, "Analysis of Members' Rights and Equity Owned in Agricultural Cooperatives."
5. Oregon State University, "Implications of Tax Changes on Cooperatives."
6. Iowa State University, "Cooperative Treatment of Large and Small Members."
7. University of Illinois, "Value Added Exports."
8. Ohio State University, "Fluid Milk Processing Costs."
9. Montana State University, "State Trading in Grain."
10. University of California at Davis, "Evaluation of the Cooperative Bargaining Process."
11. Washington Computer Center, "Data Processing Services."
12. Statistical Reporting Service, "Processing Data Used for Annual Statistics of Farmer Cooperatives."
13. Animal and Plant Health Inspection Service, "Administrative Services."
14. Cooperative State Research Service, "ACS share of USDA Small Business Innovation Research Program."
15. Office of Governmental and Public Affairs, "Electronic Mail."
16. Oklahoma State University, "Cooperative Simulation Model."

EXPECTED CONTRACTS AND AGREEMENTS FY 1987

1. Animal and Plant Health Inspection Service, "Administrative Services."
2. Washington Computer Center, "Data Processing Services."
3. Office of Governmental and Public Affairs, "Electronic Mail."
4. Statistical Reporting Service, "Processing Data Used for Annual Statistics of Farmer Cooperatives."

PUBLICATIONS

Mr. WHITTEN. ACS has over 100 research educational publications about U.S. cooperatives on file. How does ACS assure that local cooperatives are aware of and have full access to these publications?

Mr. TORGERSON. ACS publishes a catalog, Farmer Cooperative Publications, Cooperative Information Report 4. The catalog lists publications by numerical series with a capsule description of content, then relists them by subject matter categories.

Each time the catalog is updated—about every 2 years—copies are sent to each cooperative on the agency's master list.

Announcements of new reports are published in the agency's monthly periodical, Farmer Cooperatives, which goes to each cooperative. News releases are sent to cooperatives having their own member publications. Announcements of specialized reports are sent directly to cooperatives that are most likely to benefit from report findings.

BUDGET REQUEST

Mr. WHITTEN. What was your budget request to the Assistant Secretary, to the Department, and to OMB?

Mr. TORGERSON. The request to the Assistant Secretary and to the Department was $4,500,000 in appropriated funds. The estimate to the Office of Management and Budget was for $2,813,000 appropriated, and $900,000 user fees for a total of $3,713,000.

PROPOSED USER FEE PLAN

Mr. WHITTEN. Please provide the committee a copy of the proposed user fee implementation plan.

Mr. TORGERSON. A proposed user fee implementation plan is presently being developed. When it is completed, the Committee will be provided a copy of the plan.

Mr. WHITTEN. If user fees are allowed, what would this add to the cost of running a cooperative?

Mr. TORGERSON. The services provided to cooperatives under a user fee system would be similar to those provided by a consulting firm. The requesting cooperative would have to consider the reputation of the Agency and determine if the proposed user fees would be an economically wise decision. The fiscal year 1987 budget request is for full user fees. The cost to the cooperative would be based on the actual costs of the Agency.

OBJECT CLASS REDUCTION

Mr. WHITTEN. Your budget proposal shows about a $1 million reduction in object classes other than personnel compensation and benefits. What impacts will this have on the Agricultural Cooperative Service?

Mr. TORGERSON. Research and assistance work will be reduced in several program areas, with outside research eliminated. Program areas in dairy, crops, and cooperative management and operations will be cut as will cooperative development and technical assistance to new and emerging cooperatives.

Mr. WHITTEN. Mrs. Smith?

Mrs. SMITH. Thank you, Mr. Chairman. And welcome to all of you.

USER FEES

Let me ask you, in case you should get the proposed user fees system, how would it increase the cost to cooperatives? How would these costs be passed on to the consumer?

Mr. TORGERSON. Mrs. Smith, the user fee implementation by our agency would mean that the work that we are doing, both in technical assistance for cooperatives, as well as our research program, would be billed to the cooperatives on a cost-justified basis.

In other words, we would work out the employee cost, the travel, other services and publication rendered in association with these services. Those cooperatives that are in position to pay for them, would be billed for these services.

Presumably this could be an additional cost of doing business, which then would be passed through to consumers or whomever the product moves to, for those with the ability to pass that cost on.

BUDGET REDUCTION

Mrs. SMITH. I note you say at the bottom of page 5 in your testimony, that the '87 budget proposes a reduction of $972,000 for research on cooperatives in international trade and finance, and on adjustments to changing structure of production in agriculture and its subsequent impact on processing and marketing systems.

I ask you, how are we to carry out the newly passed farm bill without this kind of work being done?

Mr. TORGERSON. I have not thought of it in that context, but I am sure that type of research and analysis is important to carrying out certain features of the farm bill, particularly as it pertains to middle size and smaller farm operators.

In this particular instance, the reduction of the budget by this amount would eliminate our cooperative research agreements, which we use for carrying out our program of research with the land grant universities and specifically oriented to cooperative subjects.

Mrs. SMITH. With agriculture in the situation that it is in today, do you feel that we can afford to sacrifice these programs?

Mr. TORGERSON. That is a difficult call, of course. But it is one that the Administration has made, and we are obligated to follow.

COOPERATIVE DISSOLUTIONS

Mrs. SMITH. We have some cooperatives going broke out in our area. One went broke just very recently in Broken Bow. How is the co-op member's equity protected when these co-ops go broke? What programs do you have to assist in this regard?

Mr. TORGERSON. We have had a program of research on the whole issue of equity redemption, Mrs. Smith, and assistance to cooperatives in improving their financial structure to deal with that.

Unfortunately, in the current environment, if you do not generate earnings in cooperatives you cannot redeem equities. In the Omaha farm credit district, of which your state is a part, nearly half of the cooperatives are currently reporting negative earnings.

Mrs. SMITH. I am very aware of that.

Mr. TORGERSON. I am sure you are. As that happens, what we are dealing with is either reorganization of these cooperatives by merger with nearby local associations, or, in some cases, dissolution.

If the cooperative's debts are more than its net worth, the individual farm operator receives nothing from his investment, and has to report it as a loss.

INCREASED COST OF USER FEES

Mrs. **Smith**. What costs would be passed on to cooperatives?

Mr. **Torgerson**. The user fee plan of the Agency is still being developed. However, our proposal is to shift to a full user fee plan that will base charges on the actual cost to the agency of providing the requested service. The costs of technical service provided to cooperatives would be much like that of a consulting firm. The costs of purchasing the services would be treated as an expense by a cooperative. Ideally, the savings resulting from recommendations would more than offset the cost of the assistance. It is our opinion that these costs would have negligible impact on consumer prices.

REDUCTION IN COOPERATIVE RESEARCH

Mrs. **Smith**. What additional duties do you have as a result of the Farm Bill and how does this relate to the cut of $972,000?

Mr. **Torgerson**. The newly passed farm bill places more responsibility on individuals in the marketplace. This translates into more group action by producers as they position themselves to defend their economic interests. Assisting producers to adjust to a more volatile market-oriented agriculture is an important component resulting from the new farm bill. ACS' research program will be substantially reduced with the $972,000 cut, primarily but not totally in cooperative research agreements with land grant universities. Through these collaborative research efforts, ACS leverages its program and also helps train new researchers in areas of expertise on cooperatives.

INTERNATIONAL EFFORTS

Mrs. **Smith**. Have you targeted any efforts towards exports or trade?

Mr. **Torgerson**. The Cooperative Marketing and Purchasing Division of ACS has an International Trade Program Area whose objective is to "assist U.S. farmer cooperatives expand their participation in international trade of agricultural products and supplies and to review their progress." In the last year they have conducted several activities to promote exports, including: Issued the last of a series of 4 brochures describing products and services farmer cooperatives offer foreign buyers. These brochures were distributed to all U.S. embassies, and to many foreign buyers through trade shows, direct mailing, and distribution by cooperative organizations. Issued a publication describing how smaller and non-exporting cooperatives can use the services of export management companies to enter export markets or to expand exports. Supported jointly with two other cooperative organizations development of a computerized information service including trade data for 47 countries and 34 commodities. Issued a report and held a seminar for cooperative exporters on the potential for exports of processed fruit and vegetable products to six Pacific Rim countries. Initial efforts to develop a family of cooperative products for export to these markets is currently being assisted by ACS. Other publications issued include: Economies of Size in Grain Export Elevators, Economic Analysis of Export Promotion for Cooperatives, Foreign Office Costs, Coordinating Transportation Functions Through Export Trading Companies, and Marketing Strategies for Agricultural Commodities in Centrally Planned Economies. Completed a technical assistance project on exporting for a major Midwestern cooperative.

Mrs. **Smith**. I have no further questions, Mr. Chairman.

Mr. **Whitten**. Mr. Akaka?

HAWAIIAN COOPERATIVES

Mr. **Akaka**. Thank you very much, Mr. Chairman. I am so glad to have you here, Mr. Torgerson, on the Hill. I first want to commend you and your staff and the kind of service that you give to Hawaii cooperatives.

In Hawaii, we are very grateful for the kind of help we have been having. And I want to tell you, it has made a difference.

I have met with—especially with ginger farmers in Hawaii, and was amazed with what has developed there. And it is good to see the farmers happy with what is happening. And then I was surprised to see the number of farmers increasing because the cooperative is doing so well.

But it has not only been the kind of service that this person has given in putting together the co-op, but the kind of information that is required by other farmers, other than ginger, that has helped them.

And I would say now, in talking to some of the farmers, it has gotten to a point where some of them feel they cannot do without it. But I am glad. Now that we have your service out there, I told the farmers, you either make use of it or you lose it. And I think our farmers have been doing a good job in using your technical assistance and help out there.

Mr. **Torgerson**. Yes, they have.

Mr. **Akaka**. So mainly, I really want to thank you for it. And I share the opinion of our member Mrs. Smith about worrying about whether the service can be continued under the proposed cuts. And would just hope that we can continue that kind of service.

I think you know the feeling of this committee, that we want to help agriculture all we can. And we hope we can do the same with you and your people, too.

EFFECT OF BUDGET ON HAWAII

Now, my question to you is, will the kind of cuts that are being proposed affect the service that is being given out in our region?

Mr. **Torgerson**. Congressman Akaka, many of the cooperatives that we are currently working with in the Hawaiian Islands are what we would classify as developing organizations, very much like the ginger producers. As you know, a number of those are made up of relatively small producers, many of them operating on rented land and producing a variety of crops.

Under those conditions, it is quite doubtful that many of them would have the capacity to support, through assessment or a user fee, most of the technical assistance we are currently doing in the islands.

To the extent that we are helping some of the ranchers out there who have been interested in developing meat-packing cooperatives, some of those undoubtedly are in a position that they could afford to pay for some of the technical assistance through user fees.

But I would say, by and large, for a number of the others, that would not be the case. And in that case, that work would not go forward.

USER FEES IN OTHER AGENCIES

Mr. AKAKA. I see. Have you taken any survey among the farmers and the ranchers out in Hawaii as to whether they could continue with user fees?

Mr. TORGERSON. We have not at this point. No, sir.

Mr. AKAKA. To your knowledge, Mr. Torgerson, are user fees being collected from market research or any other type of research performed by federal agencies presently?

Mr. TORGERSON. In terms of sister agencies in the department that are conducting a program research, I am not aware of any that have user fees. Mr. Dewhurst may have some idea about that.

The closest, I think, that anything comes to that is in instances where you have market research and promotion funds, and some of that might be used for research. But I am not aware that ERS, SRS or ARS have a user fee program.

THE FARM CRISIS AND FARM COOPERATIVES

Mr. AKAKA. Mr. Torgerson, America's farms and the farm credit system are under unprecedented pressure. This situation will also cause farm cooperatives to face operating difficulties. How many farm cooperatives face operating difficulties?

Mr. TORGERSON. It is difficult to put an exact number on cooperatives facing operating difficulties. However, an estimate was derived by examining how many cooperatives in 1984 had losses and a net worth to asset ratio of 40 percent or less—data on cooperatives for 1985 are not yet available. As shown in the table that I am inserting, 335 cooperatives fell into this grouping. These cooperatives have assets totaling $2.1 billion, net worth of only $510 million, and losses totaling $115 million. These cooperatives will not be able to operate very long if losses continue.

[The table follows:]

FINANCIAL SITUATION OF FARMER COOPERATIVES WITH LOSSES, 1984

[Dollars in millions]

New worth to assests ratio (percent)	Cooperatives		Assets		Net worth		Net margins	
	Number	Percent	Amount	Percent	Amount	Percent	Amount	Percent
10 or less	49	5.0	$78	2.1	−$1	−0.1	−$11	6.3
10.1 to 20	52	5.3	660	17.9	107	7.9	−25	14.3
20.1 to 30	99	10.1	691	18.8	161	11.8	−37	21.2
30.1 to 40	136	13.8	696	18.9	243	17.9	−42	24.1
40.1 to 50	161	16.3	675	18.4	304	22.3	−29	16.6
50.1 to 60	151	15.3	491	13.4	267	19.6	−16	9.2
60.1 to 70	126	12.8	199	5.4	129	9.5	−5	2.9
70.1 to 80	95	9.7	96	2.6	73	5.4	−4	2.3
80.1 to 90	80	8.1	81	2.2	68	5.0	−5	2.9
90 to 100	35	3.6	11	0.3	10	0.7	−0.4	0.2
Total	984	100.0	3,678	100.0	1,361	100.0	−174.4	100.0

Mr. AKAKA. Mr. Torgerson, how has the Agricultural Cooperative Service been able to help ailing farm cooperatives to stay afloat during the farm crisis.

Mr. TORGERSON. The Agricultural Cooperatives Service provides assistance to cooperatives in two basic ways: direct technical assistance to requesting cooperatives, and through economic research studies that pinpoint markets, methods, and alternatives to current operations and organizational structures. Technical assistance projects provide specific analysis and evaluations to the requesting cooperative. Many technical assistance projects examine the operations of the cooperative and identify changes that will save money. Other projects have assisted cooperatives in developing marketing, financing, and management plans required by lenders for loan approval. ACS provided direct technical assistance to 83 cooperative and producer groups in fiscal year 1985 and 94 cooperative and producer groups in fiscal year 1984. The Agency also provides assistance to cooperatives through its research program. The research priorities of the Agency are reviewed on a periodic basis so that issues of greatest importance to cooperatives are addressed. The findings of the research effort are disseminated through the monthly magazine, Farmer Cooperatives, and through distribution of research reports. These research programs are designed to provide timely and relevant information to cooperative managers and directors to assist them in their decision making process. Topics discussed in these research efforts include the legal liability of cooperative directors, financial performance of cooperatives in various commodity sectors, enhancement of international trade by cooperatives, and the examination of cooperative operations in several commodity sectors.

BUDGET REDUCTIONS IN FY 1987

Mr. AKAKA. Mr. Torgerson, the proposed budget for FY 1987 contains a decrease of $972,000 for research on agriculture cooperatives. This represents a one-third cut in your research budget. In past years, how has your research on cooperatives helped to strengthen agriculture cooperatives and promote the growth of new cooperatives?

Mr. **Torgerson**. ACS has tried to direct its research programs to those issues and problems of highest priority and biggest payoff for the cooperative community. Improving financial management and increasing operational efficiency has been high on recent lists. Increasing exports by cooperatives and restructuring to adjust to the changing structure of production agriculture has also been subjects of recent ACS research emphasis. By providing this information, cooperatives are better able to survive and serve their members through these stressful times in agriculture. We have also had several recent research projects aimed at determining the need for new cooperative efforts and how they might best be undertaken.

Mr. **Akaka**. As a result of these proposed cuts, do you expect that you will have to turn down requests that you receive for research on special areas of need?

Mr. **Torgerson**. The size of the proposed cut will completely eliminate our program of research with various colleges and universities. This is the way we now get much of our research needs met. Yes, elimination of this program will reduce the Agency's capability to respond to various areas of research need.

Mr. **Akaka**. According to your budget justification the $972,000 reductions will result in "decreases in research for international trade and finance" and "a decrease in research on adjustments to the changing structure of production agriculture and its subsequent impact on processing/marketing systems." In light of the need to strengthen exports of American farm products, how will your agency's ability to promote exports through cooperative development be harmed by the proposed cut?

Mr. **Torgerson**. Unless developing and already developed cooperatives are willing and able to fund research on expanding cooperative exports, our research program in this area will cease to exist. On the other hand, those cooperatives requesting assistance in expanding exports, and who have the ability to pay for it, would continue to benefit from ACS expertise in the international trade area.

Mr. **Akaka**. The second half of this cut would affect your research on the "changing structure of production agriculture." Mr. Torgerson, what is the relationship between a farmer's ability to remain profitable and his ability to adjust to the "changing structure of production agriculture?"

Mr. **Torgerson**. Farm operators can achieve profitability through one or a combination of practices. By belonging to a marketing cooperative, producers attempt to achieve fair market value for their products by combining their selling efforts with others. This joint marketing activity may involve bargaining over selling terms or adding value to the product through further processing and marketing it under a brand name. A second method is to increase production efficiency by using the latest technology and shrewd management skills. Often production efficiency can be enhanced by buying inputs and other services cooperatively. We often find the most stability in farming structure where producers are represented by effective marketing and purchasing cooperatives. Earnings are necessary to adopt new and improved technology.

Mr. **Akaka**. How will this proposed cut limit your ability to help cooperatives stay abreast of changes in agricultural production?

Mr. **Torgerson**. Cooperatives in practice and in theory are an off-farm extension of the farm firm. Their operations have been greatly influenced by the changing composition of the farming community. Recent studies show an increasingly bi-modal distribution of farms with relatively few large commercial enterprises, and an increasing number of small, part time farms. Research should stay abreast of these changes so that cooperatives can accommodate increasingly diverse member interests. This research will not be possible in ACS under the proposed changes in funding and operation, and should be performed elsewhere.

Mr. **Akaka**. If user fees were instituted for the services performed by the Agricultural Cooperative Service, what impact would this change have on the ability of your agency to respond to the needs of small cooperatives and help new cooperatives begin operation?

Mr. **Torgerson**. Our FY 1987 budget request reflects total Agency funding through the imposition of user fees on the recipients of the Agency's services. If user fees were imposed on all Agency functions, we believe the demand for ACS services would be reduced, requiring a decrease from present staffing levels. With a smaller staff, we would be restricted in our ability to respond to the needs of small cooperatives and new cooperative groups even if they could pay for the services. The available staff would need to be assigned to work with those cooperatives that could pay user fees, most likely the large cooperatives.

Mr. **Akaka**. In the light of their limited financial resources, would they be able to pay for the cost of your services?

Mr. **Torgerson**. Based on our experience with new and developing cooperatives, it is our best judgment that few, if any, would be able to pay for the cost of our services. One major impediment to cooperative development is the inability of producers to raise the required equity capital to finance a new cooperative operation. This lack of financial resources also translates into those producers' inability to pay user fees for the Agency's services.

COOPERATIVE DEVELOPMENT IN HAWAII

Mr. **Akaka**. Highlight the accomplishments of the Hilo ACS office in the past year.

Mr. **Torgerson**. The Hilo office continues to be staffed with one Agricultural Marketing Specialist, and is provided with half-time secretarial service on a contract basis. The office is located in the Federal Building in Hilo.

The 1985 fiscal year ended with 4 technical assistance projects in an active status. Two of these projects began during the year and involved Washington, DC staff. We are particularly pleased that one of these projects is the proposed merger of two vegetable marketing cooperatives on Maui. Also during the year, 4 projects were completed or terminated. One request from a group of banana growers was referred to the University of Hawaii.

The Hilo office also responded to more than 63 requests for short-term assistance and information. As in past years, this included requests on how to start a cooperative, review of by-laws, publications and education on cooperative principles and practices, assessment of need for a cooperative, and how to handle particular member-relations issues, tax issues, and other operating problems. As a result of this short-term and new project development work, we expect several formal requests for help in forming new cooperatives in FY 1986.

The Hilo staff presented major speeches on ACS and cooperatives to the Papaya Administrative Committee, Oahu; the Third Annual Fertilizer and Ornamental Short Course, Maui; and the Hawaii Agricultural Leadership Foundation and the College of Agriculture Student Association, Big Island.

Mr. Akaka. Identify the activities planned for the coming year for the Hilo ACS office.

Mr. Torgerson. Completion of technical assistance projects active at the end of FY 1985 is a high priority in FY 1986. New requests requring extensive analysis will be assigned to either the Hilo office or the Washington staff based on their availability and urgency of the project. A large number of inquiries from individuals and groups will continue to be expeditiously handled. The Hilo and Washington offices will plan a marketing training seminar for Hawaii cooperative managers and directors.

Mr. Akaka. How has the Hilo office allowed ACS to better serve agricultural producers in Hawaii?

Mr. Torgerson. Having an office located in Hilo provides many producers and cooperative managers with convenient access to the office, and places the office near a substantial portion of the new and expanding agricultural activities of small producers in the State. ACS' services are thus more visible and accessible to cooperatives and producer groups throughout the State. It also allows our staff to respond to requests for technical assistance more quickly and with more knowledge of the local agricultural production and marketing situation. In addition, our staff can be more effective in helping producers identify opportunities for developing viable new cooperatives.

Mr. Akaka. How has cooperative development in Hawaii strengthened since the opening of the Hilo ACS office?

Mr. Torgerson. The Hilo office has significantly raised the level of awareness of the cooperative form of business organization among Hawaii farmers, their advisors, and cooperative managers by making speeches at extension and farmer meetings, responding to inquiries, and providing technical assistance. This has led many farmer groups to consider forming cooperatives to solve their marketing problems. The Hilo office also has provided farmers and cooperative managers a readily accessible source of information and expertise on cooperative operations and development. The information and assistance provided through this office has greatly enhanced the probability of success of new cooperative ventures and helped existing cooperatives solve their problems and improve their operations. Equally important, the Hilo staff's assistance has helped farmers save much time and money in establishing cooperatives when they did not appear feasible.

Mr. Akaka. Describe the demand in Hawaii for the technical assistance of your agency.

Mr. TORGERSON. Since beginning active work in 1982, we have experienced a demand for service that has been difficult to meet. We have received 16 written requests here in Washington for technical assistance. We provided technical assistance, beyond an evaluation, on 11 of these requests through either a Washington, DC, staff member, the Hilo office, or a team effort from both offices.

The Hilo Field Office handled 90 inquiries in FY 1984, 63 in FY 1985 and has handled 30 inquiries in the first 5 months of FY 1986. Many of these requests require an evaluation or research followed by repeated contacts to complete the work. This inquiry level is far ahead of the level in our other field offices.

The Hilo office outreach contacts have continued each year on a low key level. We have not generally made special efforts to cultivate work. This high inquiry and request level reflects, we believe, the interest of many Hawaiian producers in cooperatives and their readiness to make use of ACS as a technical resource.

Mr. AKAKA. If you have received any favorable comments or letters regarding the operation of the Hilo ACS office, please provide copies of them for the record.

Mr. TORGERSON. We will furnish letters from Hawaiian clients.

[The letters follow:]

Mr. James Goff
USDA/ACS
Room 4300, Auditors Building
14th & Independence Ave., SW
Washington, DC 20250

February 12, 1986

Dear Jim,

I wanted to tell you how much we all appreciated the excellent job you have done thus far for us. I realize it is just your "job". But your enthusiasm and hard work made a very good impression on me - of what a civil service employee should be. I wish the government had more like you - then I wouldn't mind paying my taxes! Looking forward to hearing from you and the final report.

Aloha,

Brenda

UNIVERSITY OF HAWAII AT HILO
COLLEGE OF AGRICULTURE
STUDENT ASSOCIATION
CASA

May 3, 1985

Mr. Rick Garland
USDA, Agricultural Cooperative Service
Federal Building, room 305
Hilo, Hawaii 96720

Dear Mr. Garland,

The University of Hawaii College of Agriculture would like to express our thanks to those special people that have contributed to our education in the field of agriculture. Your seminar on Agricultural Cooperatives was a standout success and we are sincerely grateful to have you in our community.

The students here at UH-Hilo realize that we are very fortunate to have one of the few field offices across the nation, located in Hilo. We feel that your agency can contribute much to the realization of our agricultural potential in Hawaii County. We thank you personally for holding the very informitive seminar on Agricultural Cooperatives, and the USDA Agricultural Cooperative Service for being there when we need it. Please keep up the good work!

Sincerely,
Kelly Moran
Kelly Moran, Vice President

and members of the CASA Senate:

John P. Thomas

Denise Bernstein

Matthew Wong

Laurel S. Dekker

1400 KAPIOLANI STREET HILO, HAWAII 96720
TEL:(808) 961-9519

Mr. **Akaka**. Thank you very much.

Mr. **Torgerson**. Thank you.

Mr. **Whitten**. Mr. Rogers?

Mr. **Rogers**. Thank you, Mr. Chairman. And gentlemen, welcome to the committee.

FRUIT AND VEGETABLE MARKETING FEDERATION

Let me ask you, Mr. Torgerson, about whether or not you are familiar with the Horticultural Producers Federation?

Mr. **Torgerson**. Yes, I am.

Mr. **Rogers**. I am very interested in the Federation. As you know, that is a federation of 14 co-ops through several southeastern States intending to provide coordinated marketing of fruits and vegetables primarily.

I think it offers us a real opportunity to perhaps develop and market some supplemental crops, supplemental to tobacco and others, as we move on down through the years. And I would like to, work with you in getting that federation more operational as time goes on. It was founded only three years ago. It is making some headway, but very slowly. And I think offers some real opportunity for us.

Can we work together on that?

Mr. **Torgerson**. Yes, indeed. We have been very instrumental in the founding of that organization.

Mr. **Rogers**. I know you have.

Mr. **Torgerson**. The idea is that small local fruit and vegetable organizations need a broader outreach for marketing and information purposes. The federation was set up to accomplish that for producer members.

We are pleased with the support that has been generated thus far. Each of the 14 members, are fledgling organizations, as you perhaps know. So it is very much a developmental process.

Mr. **Rogers**. Well, they are bootstrap operations, to say the least. But they do have that basic infrastructure that is beginning to develop quite well. And with some nourishment and continued attention on your part, I think, can develop very well.

Mr. **Torgerson**. Yes, our program, as you may know, is totally research and technical advisory assistance. We have provided assistance to some of the land grant universities in the states involved, and they in turn, have developed some of the electronic data and budgeting processes necessary to help these new organizations. We are continuing to help that process.

Mr. **Rogers**. Good. They may need a little seed money from time to time.

Mr. **Torgerson**. Yes. We are not in a position, under our authorizations, to be involved in grants for this purpose. These groups rely on regional development organizations, TVA, or others such as religious organizations in that region to provide grants. In most cases, grants are not appropriate. Self-help financing is better to achieve growers' commitment to the organization.

We certainly can do our best to help identify sources of these other funds, if in fact they are available. But as you know, a lot of those sources have dried up.

Mr. Rogers. Yes. Thank you.

Mr. Torgerson. Thank you.

Mr. Rogers. Thank you, Mr. Chairman.

Mr. Whitten. Mr. Watkins?

AQUACULTURE COOPERATIVE STUDIES

Mr. Watkins. Has the ACS assisted in the development of planning for fish cooperatives?

Mr. Torgerson. Yes, we have. In the past 12 years, we discussed potential for cooperatives with fishermen groups and provided technical assistance to groups and cooperatives in Maine, New York, North Carolina, South Carolina, Florida, U.S. Virgin Islands, Alabama, Louisiana, Wisconsin, California, and Hawaii. These projects involved marketing of saltwater seafood products, processing and marketing aquaculture products, purchasing of fuel for fishermen's boats, and production of fish feed.

Mr. Watkins. What did the studies entail and how long did they take for completion?

Mr. Torgerson. Work sometimes did not go beyond a preliminary evaluation of needs and orientation to requirements for a cooperative. In a few cases specialized training was provided to the board of directors. Two examples of studies are:

A study for trout producers in North Carolina, South Carolina, Georgia, and Tennessee included a survey of producer production and marketing experience, a survey of potential market outlets, estimates of facility and capital requirements, and a 3-year financial projection of cooperative operations. Our staff conducted the study over a 9-month period and provided implementation assistance for over a year after completing the study.

A survey of catfish producers in Alabama helped them decide they did not have enough volume to successfully operate their own feed mill. This work terminated about 15 months after receiving the request.

Mr. Watkins. Could ACS be open to conducting further study if approached by others interested in the development of a fish cooperative?

Mr. Torgerson. We would be glad to receive a request for technical assistance from a group of fish producers and would respond as quickly as possible within the limits of our resources.

Mr. Watkins. We have an interested party back in Oklahoma that may be contacting you to discuss such a possibility.

Mr. Torgerson. We will be glad to visit with them regarding cooperative development procedures and the type of technical assistance our staff can provide.

Mr. Watkins. Thank you, Mr. Chairman.

Mr. Whitten. Mr. Skeen?

Mr. Skeen. Thank you, Mr. Chairman. And Mr. Torgerson, I want to welcome you and your group here today.

Mr. Torgerson. Thank you.

Mr. Skeen. I think you have made some fine statements in the text of the material that you have got here.

DIRECTOR LIABILITY

Mr. **Skeen**. I was concerned about one area, and that is, under the research programs that you provide informational assistance to these cooperatives. And then you mentioned director liability. How big a problem is that?

Mr. **Torgerson**. This is a very large and growing problem throughout the country. And it is emerging as a significant issue in a number of state legislatures as well.

Out in California where I was last week, they call it the deep pocket issues, because individual directors—

Mr. **Skeen**. As opposed to the deep throat, it is the deep pocket?

Mr. **Torgerson**. Yes, exactly. People can become liable for their own property, well-being, homes, and everything having served as directors of various business organizations.

Mr. **Skeen**. Have there been any liability assessments through court procedures against directors or members of boards of cooperatives?

Mr. **Torgerson**. None that I can put my finger on at the present time for you.

We have done some work on the director liability issue through the law school at the University of Arkansas, and have an agency publication which identifies the issue of director liability as a general informational piece. It is designed to bring directors up to speed on the exposure they have and how to deal with those types of issues.

Mr. **Skeen**. What about the availability of coverage, insurance or bonding?

Mr. **Torgerson**. That is the hot issue right now.

Mr. **Skeen**. That is the crux of the issue.

Mr. **Torgerson**. It is the prohibitive cost of it that is surfacing as such a timely issue. We are finding that there are some instances where producers are not willing to serve as directors anymore just because of that potential exposure.

Mr. **Skeen**. Well, it is becoming a nationwide crisis.

Mr. **Torgerson**. Yes, it is.

Mr. **Skeen**. And it not only affects State Legislatures, but it is also now becoming an issue of much concern and awareness in the Congress of the United States, because this liability issue has gotten totally out of hand.

ORGANIC FARMING COOPERATIVES

Mr. **Skeen**. Do you have any cooperatives that are organized specifically for organic farming enterprises?

Mr. **Torgerson**. There has been a great deal of interest in the whole organic farming issue in Pennsylvania and some other locations. From time to time, there have been a number of individual producers who have been proponents of organic farming and using that method for marketing. But to the best of my knowledge, I do not think we have any specific cooperatives that we are aware of that are marketers of organic produce only.

Mr. **Skeen**. I was curious, because this debate crops up from time to time, and the USDA gets accused of being less than sensitive about organic farming issues. And I had always—as one who has been interested in agriculture for most of my life—have always thought that this was part of the total picture of farming.

Mr. **Torgerson**. It certainly is.

Mr. **Skeen**. And most of these principles are inculcated into regular practices where they are applicable. And I was just curious though, that since I saw a little article here in the last couple of weeks concerning organic farming, whether or not there had been any cooperatives ever formed, or any research done on just strictly organic farming orientation as far as marketing was concerned.

Mr. **Torgerson**. Our organization has not. But we have responded to requests as they have come to us. That would indicate that we just have not had requests for this activity.

Mr. **Skeen**. Well, it does not indicate any wide-based differentiation——

Mr. **Torgerson**. No.

Mr. **Skeen** [continuing]. Then between regular practices and good agricultural practices as opposed to say—I have always thought we get a little cultish sometimes about organic farming and some of these specific issues.

Thank you very much, Mr. Torgerson. And thank you, Mr. Chairman.

CONCLUSION

Mr. **Whitten**. Thank you very much. And I will stress again, I think you have done a fair job of calling attention to what you do in a number of cooperatives. Please set it out in detail, because when we go to the floor, we in turn are asked to present all these things. So you might do that.

And again, the tragedy as I see it is, that these drastic cuts—and I am not saying that anyone cannot take some—the drastic cuts, the funds are being transferred to increase foreign aid and the carryover of unspent military funds. And I point out that foreign aid and military are dependent on public support and a strong economy. It frightens me to see what our economy has done.

I had a lady in my office the other day that said, well, everything seems to be active. I said, in five years we have added $1 trillion to the debt, money which is available for spending. It has created lots of activity, but precious little productivity.

Thank you very much.

Mr. **Torgerson**. Thank you, Mr. Chairman.

[The prepared statements for the record follow:]

AGRICULTURAL COOPERATIVE SERVICE

Statement of Randall E. Torgerson, Administrator before the House Subcommittee on Agriculture, Rural Development, and Related Agencies.

Mr. Chairman, Members of the Committee:

I appreciate the opportunity of appearing before you to present the budget of the Agricultural Cooperative Service. First, I want to introduce my associates who are with me today -- Dr. Jack Armstrong, Deputy Administrator, Agricultural Cooperative Service; and Samuel V. Ladd, Director, Budget and Accounting Division, Animal and Plant Health Inspection Service.

The Agricultural Cooperative Service (ACS) is the Department's focal point in providing research, analysis, technical assistance and education to farmer-owned cooperatives throughout the Nation. ACS operates as an independent agency carrying out major functions assigned to it by the Secretary. Activities and services of the Agency closely follow the language and spirit spelled out by Congress in the Cooperative Marketing Act of 1926.

Agency Missions

The Agricultural Cooperative Service performs research and policy analysis on cooperative related issues and is the primary supplier of services to farmer cooperatives. We help existing cooperatives improve their efficiency and effectiveness of operations and assist new cooperatives to get a good start. We provide service and information to bring about more effective cooperative operations in support of the farm family ownership structure.

The Agency's program has five basic parts: (1) technical assistance, (2) new cooperative development, (3) research, (4) collection of cooperative statistics, and (5) cooperative education and information.

The Importance of Farmer Cooperatives

A total of 5,782 marketing, farm supply, and related service cooperatives were operating in 1984, with combined sales of $73.0 billion. Sales increased 9.4 percent in 1984, but net margins of all cooperatives declined 4.4 percent to $1.01 billion. Total assets were $29.2 billion and member and patron equity $12.2 billion. Cooperative memberships were 4.8 million, indicating many farmers belong to more than one cooperative.

As a reflection of general economic difficulties in the agricultural sector, the number of cooperatives reporting losses increased from 702 in 1983 to 984 in 1984, or 12 and 17 percent of all cooperatives respectively. Some major losses have been reported in 1985 by individual cooperatives. Since cooperatives are integrally linked to the well-being of their farmer members, the poorer performance reflects continued difficulties in production agriculture.

Producers continued to look to their cooperatives to be efficient and effective in representing their interests in the marketplace. To accomplish this, boards of directors and managers have taken steps in many situations to make changes internally and to even consider structural alignments with other cooperatives or businesses. The number of mergers, consolidations and dissolutions has increased and is reflected in the decrease of 207 cooperatively owned businesses from 1983 to 1984. The Agricultural Cooperative Service is involved in a number of such adjustment studies throughout the country to assist producers in evaluating their alternative courses of action.

Overview of Research and Technical Assistance Activities

You may ask, and rightfully so, what are we in ACS specifically doing to assist the farmer cooperative sector. During the past year the Agency provided technical assistance to 83 co-ops and producer groups through 62 separate projects. Forty two of these projects involved emerging or developing co-ops, serving a total membership of over 3,800. Commodities examined included grain, soybeans, cotton and cottonseed, peanuts, fruits, vegetables, beef, dairy, handcrafts, feed, and other farm supplies. Examples of specific projects include: comparative cost study for 32 cooperative dairy plants in the Midwest; the establishment of a peanut shelling cooperative in Virginia and North Carolina; merger studies of cooperatives in Iowa and Hawaii; a plant cost analysis of 14 cooperative oil seed mills in the south central states; work with New York grape growers to market juice and wine; assistance to Kentucky vegetable growers to develop cooperatives for packing and marketing; and long range planning assistance for a farm supply and grain marketing cooperative in Oklahoma. Projects involved cooperatives located in 30 states.

The Agency's research program provides timely and relevant information to the managers and directors of the Nation's cooperatives. Examples of research accomplishments in 1985 included: an analysis of reserve balancing pool for services by dairy cooperatives; a financial profile of the largest cooperative organizations; use of export management companies by cooperatives; an analysis of director liability in farmer cooperatives; and examination of cooperative operations in grain, petroleum, farm supplies, potatoes, dairy, wool, fish, and fruit and vegetables.

The findings and recommendations of these research projects assist cooperatives in improving operations and services provided to members. The Agency continually evaluates and updates research plans, so that the most pressing issues of concern to cooperatives are addressed. Currently over 70 research projects are underway.

Results of ACS research and technical assistance work are highlighted in the monthly Farmer Cooperatives magazine, now in its 51st year of publication. This publication is aimed at directors and managers of cooperative associations, more than 90 percent of which have annual sales of less than $15 million. They are truly small businesses that are found in rural communities throughout the Nation.

In response to the President's Reform '88 program, we are still in the process of automating many analytical and administrative functions. When completed, this will help us to achieve our objectives more efficiently. To conduct our Agency's activities during FY 1987, we will have a ceiling of 64 staff years.

The ACS budget request for FY 1987 is $3,698,000, which is $972,000 less than the Agency's FY 1986 level. Our FY 1987 budget proposes the following changes:

> A reduction of $972,000 for research on cooperatives in international trade and finance and on adjustments to changing structure of production agriculture and its subsequent impact on processing and marketing systems.

A shift of the ACS program to be totally funded through user fees. Legislation has been prepared to provide for the beneficiaries of the Agency's services to pay for them. A system of charges is being developed.

As soon as legislation is passed and our proposed user fee plan is approved we will initiate these programs.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be glad to respond to any questions.

AGRICULTURAL COOPERATIVE SERVICE

Purpose Statement

The Agricultural Cooperative Service (ACS) is assigned functions under both the Cooperative Marketing Act of 1926 and under the Agricultural Marketing Act of 1946. Under the Cooperative Marketing Act, ACS is authorized to: (1) acquire analyze, and disseminate economic, statistical, and historical information regarding the progress, organization, and business methods of cooperative associations in the United States and foreign countries; (2) conduct studies of the economic, legal, financial, social, and other phases of cooperation, including analyses of cooperative associations; (3) make surveys and analyses of the accounts and business practices of representative cooperative associations; (4) confer and advise with committees or groups of producers who want to form a cooperative association and to make an economic analysis of the facts relevant to setting up such an association; (5) promote the knowledge of cooperative principles and practices and to cooperate in promoting such knowledge to others; and (6) make special studies to acquire and disseminate such information.

Under the Agricultural Marketing Act, ACS is authorized to carry out responsibilities which relate to the marketing aspects of cooperatives, including economic research and analysis and the application of economic research findings. In addition, ACS is authorized to work with institutions and international organizations on subjects relating to cooperatives.

ACS serves as the focal point of national activity involving agricultural cooperatives. The purpose of ACS is to help farmers help themselves by providing the assistance necessary to support and improve existing cooperatives and to help farmers organize new cooperatives.

The studies conducted by ACS, alone or in conjunction with other Federal or State institutions, are intended to provide farmers with information on economic, financial, organizational, legal, and social aspects of cooperative activity. In today's rapidly changing economic environment, ACS provides technical advice to assist farmer cooperatives in the development and operation of viable profitable organizations serving the nation's family farmers.

ACS is headquartered in Washington, D.C., with 3 field offices which are in Hilo, Hawaii; London, Kentucky; and Greenville, North Carolina. As of September 30, 1985, ACS employed 60 permanent full-time and 4 part-time personnel, 61 of whom were located in headquarters and 3 in the field offices.

AGRICULTURAL COOPERATIVE SERVICE

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Agricultural Cooperative Service..................	$4,660,000	65	$4,670,000	64	$3,698,000	64
Total, Agricultural Cooperative Service......	4,660,000	65	4,670,000	64	3,698,000	64

Full-Time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling..................	65	64	64
Non-Ceiling..............	--	--	--
Total..................	65	64	64

AGRICULTURAL COOPERATIVE SERVICE

Permanent Positions by Grade and Staff-Years Summary

1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
ES-5	1	--	1	1	--	1	1	--	1
GS/GM-15	4	--	4	4	--	4	4	--	4
GS/GM-14	11	--	11	11	--	11	11	--	11
GS/GM-13	15	3	18	15	3	18	15	3	18
GS-12	7	--	7	7	--	7	7	--	7
GS-11	3	--	3	3	--	3	3	--	3
GS-9	2	--	2	2	--	2	2	--	2
GS-7	6	--	6	6	--	6	6	--	6
GS-6	5	--	5	5	--	5	5	--	5
GS-5	6	--	6	6	--	6	6	--	6
Other Graded Positions	--	--	--	--	--	--	--	--	--
Ungraded Postions	1	--	1	1	--	1	1	--	1
Total Permanent Positions	61	3	64	61	3	64	61	3	64
Staff Years:									
Ceiling	62	3	65	61	3	64	61	3	64
Non-Ceiling	--	--	--	--	--	--	--	--	--
TOTAL	62	3	65	61	3	64	61	3	64

AGRICULTURAL COOPERATIVE SERVICE

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

	1985	1986	1987
Personnel Compensation:			
Headquarters	$2,357,302	$2,377,000	2,377,000
Field	127,288	129,000	129,000
11 Total personnel compensation	$2,484,590	$2,506,000	2,506,000
12 Personnel Benefits	276,256	278,000	278,000
Total Personnel Compensation and Benefits	$2,760,846	$2,784,000	2,784,000
Other Objects:			
21 Travel	143,113	147,000	100,000
22 Transportation of things	309	--	
23.2 Rental payments to others	2,250	2,000	2,000
23.3 Communications, utilities and miscellaneous charges	123,590	128,000	128,000
24 Printing and reproduction	127,192	127,000	100,000
25 Other services	1,154,725	1,317,000	474,000
26 Supplies and materials	63,549	65,000	50,000
31 Equipment	160,545	100,000	60,000
Total other objects	1,775,273	1,886,000	914,000
Total direct obligations	4,536,119	4,670,000	3,698,000
Position Data:			
Average Salary, ES positions	$ 70,500	$ 70,500	$ 70,500
Average Salary, GS positions	$ 34,160	$ 34,160	$ 34,160
Average Grade, GS positions	11.05	11.05	11.05

AGRICULTURAL COOPERATIVE SERVICE

The estimates include appropriation language for this item as follows: (new language underscored; deleted matter enclosed in brackets):

Salaries and Expenses

> For necessary expenses to carry out the Cooperative Marketing Act of July 2, 1926 (7 U.S.C. 451-457), and for activities relating to the marketing aspects of cooperatives including economic research and analysis and the application of economic research findings, as authorized by the Agricultural Marketing Act of 1946 (7 U.S.C. 1621-1627), and for activities with institutions or organizations throughout the world concerning the development and operation of agricultural cooperatives (7 U.S.C. 3291) [$4,713,000] $3,698,000 [of which $139,000 shall be available for a field office in Hawaii:] Provided, that funds appropriated herein shall be used for a field office in Hawaii: Provided further, That this appropriation shall be available for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), and not to exceed $15,000 shall be available for employment under 5 U.S.C. 3109.

The change in language is for deletion of a provision setting aside $139,000 for maintaining a field office in Hawaii. This amount was originally needed to establish that office located in Hilo, Hawaii, in Fiscal Year 1983. It included such non-recurring expenses as the cost of moving an employee from the U.S. mainland to Hawaii. This level of funding will probably not be needed in Fiscal Year 1987 in carrying on normal office operations. The Agency does intend to fully staff and maintain the Hilo office in FY 1987.

SALARIES AND EXPENSES - CURRENT LAW

Appropriation Act, 1986	$4,713,000
Budget Estimate, Current Law, 1987	3,698,000
Decrease in Appropriation	-1,015,000

Adjustments in 1986:		
Appropriation Act, 1986	$4,713,000	
Less Pro-Rata Reduction, PL 99-190	- 28,000	
Net Appropriation	4,685,000	
Transfer to Departmental Administration and Office of Governmental and Public Affairs a/	- 15,000	
Adjusted base for 1986		$4,670,000
Budget Estimate, Current Law, 1987		3,698,000
Decrease from adjusted, 1986		- 972,000

a/ - A transfer of $2,000 to Departmental Administration and $13,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SALARIES AND EXPENSES - PROPOSED LEGISLATION

Budget Estimate, Current Law, 1987	$3,698,000
Change due to proposed legislation	-3,698,000
Net Request, President's 1987 Budget Request	--

SUMMARY OF DECREASES - CURRENT LAW
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Decrease	1987 Estimated
Research on agricultural cooperatives	$2,913,000	$-972,000	$1,941,000
Technical Assistance to agricultural cooperatives	1,757,000	--	1,757,000
Total Available	4,670,000	-972,000	3,698,000

PROJECT STATEMENT - CURRENT LAW
(On basis of appropriation)

PROJECT	1985 Actual		1986 Estimated			1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Decrease	Amount	Staff Years
1. Research on agricultural cooperatives	$2,873,140	41	$2,913,000	40	$-972,000	$1,941,000	40
2. Technical assistance to agricultural cooperatives	1,662,979	24	1,757,000	24	--	1,757,000	24
Unobligated balance	123,881	--	--	--			
Total Available or estimate	4,660,000	65	4,670,000	64	-972,000(1)	3,698,000	64
Transfer to Departmental Administration and Office of of Governmental and Public Affairs	+ 15,000	--	+ 15,000				
Total, Appropriation	4,675,000	65	4,685,000				

EXPLANATION OF PROGRAM

The Agricultural Cooperative Service serves as the national focal point and storehouse for information about farmer cooperatives. The major missions of the agency include research on cooperative problems and issues, providing technical assistance and advice to existing and newly emerging cooperative associations, collection and dissemination of cooperative statistics, and preparation and distribution of educational materials on cooperatives.

The Agency's research program includes studies of economic, financial, organizational, managerial, legal, social and policy related issues that affect cooperatives. Studies may be specific to a single commodity or group of commodities or may focus on specific functions which cut across commodity and service lines for cooperatives that market farm products, purchase production supplies, or perform related services.

Technical assistance is provided in response to requests, usually from cooperative boards of directors or organizational steering committees who may represent from a small group up to thousands of farmers. Types of technical assistance provided by ACS include feasibility analysis, merger and other organizational studies, strategic assessment and planning, and review of operations and performance of the range of cooperative activities. Feasibility analysis and organizational and educational assistance are provided for newly emerging cooperatives. ACS provides technical assistance for farmers and their cooperatives in most commodity and functional areas of cooperative operations. Legislation is being proposed for FY 1987 to fund all Agency activities through user fees.

JUSTIFICATION OF DECREASE

(1) A decrease of $972,000 for research on agricultural cooperatives.

Need for Change: In order to comply with the Balanced Budget and Emergency Deficit Control Act of 1985, it is necessary to reduce Government programs to minimum essential services. The Agricultural Cooperative Service can continue to perform services to farm cooperatives with a reduction in its research and educational programs.

Nature of Change: The Agency will decrease research for cooperatives in international trade and finance. ACS will also decrease research on adjustments to the changing structure of production agriculture and its subsequent impact on processing/marketing systems.

Agricultural Cooperative Service

Summary of Proposed Legislation

SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION

Item of Change	1987 Current Law	Program Changes	President's Request
Agricultural Cooperative Service	$3,698,000	$3,698,000	--

Explanation of Proposed Legislation

The Agricultural Cooperative Service has been providing a wide range of research, education, and technical assistance programs to farmer cooperatives from appropriated funds. This proposal would initiate user fees for all Agency activities on the basis that these cooperatives are directly benefited, and they should pay the total cost of these services.

AGRICULTURAL COOPERATIVE SERVICE

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS

1985 AND ESTIMATED 1986 AND 1987

	FY 1985		FY 1986		FY 1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
District of Columbia.............	$4,351,520	62	$4,392,000	61	$3,488,000	61
Hawaii................	67,470	1	139,000	1	71,000	1
Kentucky.............	67,191	1	71,000	1	71,000	1
North Carolina.......	64,938	1	68,000	1	68,000	1
Total............	$4,551,119	65	$4,670,000	64	$3,698,000	64

AGRICULTURAL COOPERATIVE SERVICE

STATUS OF PROGRAM

Cooperatives are extensions of farm enterprises. Through cooperatives, farmers jointly purchase production supplies, process, and market farm products, and obtain related services. Cooperatives are farmers' self-help method of reducing costs and risks while increasing their returns in the marketplace.

Current Activities: The Agricultural Cooperative Service (ACS) performs work under three major areas: (a) cooperative marketing and purchasing: (b) cooperative management; and (c) cooperative development. The agency conducts studies and provides educational services to support farmer cooperatives. Through research and technical assistance, the agency advises boards of directors and managers of existing cooperatives on how to improve, expand, or consolidate operations. ACS also provides technical assistance to producers interested in organizing new cooperatives. The analysis and information provided includes economic, financial, organizational, legal, and social aspects of cooperatives which permits them to meet the changing economic environment in which the family farmer operates.

ACS in meeting its responsibility maintains a storehouse of information consisting of more than 100 research and educational publications about U.S. cooperatives. A monthly magazine with a circulation of about 17,000 notes significant achievements by cooperatives and highlights agency research, technical assistance, and educational activities. The agency also provides training to directors, managers, and members of developing cooperatives on a variety of cooperative subjects.

The agency serves as the national focal point for statistics and State data on farmer cooperatives. Data on numbers of cooperatives, memberships, business volumes, and financial condition are collected and analyzed to detect changes in structure, operations, and trends of cooperatives. The data are used extensively in ACS, university, and business research; in technical assistance; and in public policy and private decision-making.

Educational materials are prepared by ACS to promote the knowledge of cooperative principles and practices as a self-help means to increase family farm income. The agency provides materials covering a wide range of subjects, written from elementary to advanced and technical levels. These materials are distributed in cooperation with educational organizations including National and State Extension Services, the American Institute of Cooperation, State farmer cooperative councils and committees, National and State farm and youth organizations, State Departments of Agriculture, adult education programs, and others.

Selected Examples of Recent Progress - Research

1. A Reserve Balancing Pool for Services by Dairy Cooperatives. The rationale for compensating dairy cooperatives for the costs incurred in balancing milk supply for the fluid market is examined. A reserve-balancing pool is proposed to facilitate deducting supply-balancing service credit from a marketwide producer pool and making payment to cooperatives for providing the services. The volume of necessary reserves maintained for the fluid market determines the size of the reserve-balancing pool. A dairy cooperative qualifies for pool payment based on the volume of milk delivered for fluid uses and on the volume of necessary reserves actually balanced. An alternative qualification is to allocate the volume of necessary reserves each cooperative has to balance according to a cooperative's market share of milk for fluid and other uses.

2. Annual Financial Profile of Largest Farmer Cooperatives

   This study represents the fifth of an annual series analyzing changes and trends in sales, assets, net margins, debt utilization, and net worth of the 100 largest farmer cooperatives. In fiscal 1984, these cooperatives recorded total revenues of $53.2 billion, a 9 percent increase from 1983. Total assets declined 2 percent to $16.6 billion. Net worth as a percentage of total assets climbed 2.2 percentage points to 33.8 percent. Net margins (after losses) increased 6 percent to $421 million. In addition, an analysis of 40 large cooperatives was conducted, providing performance information three months earlier than previous years.

3. Using Export Companies to Expand Cooperatives' Foreign Sales. Many agricultural cooperatives can expand foreign sales by using export management companies (EMC's). Small cooperatives may find foreign markets too costly and time consuming to penetrate without EMC help. Larger cooperatives may use EMC's for sales in selected foreign markets or to enhance sales of particular products. Services offered by EMC's and typical fees are discussed along with some guidelines for selecting an EMC.

4. Director Liability in Farmer Cooperatives. This study surveys and discusses possible sources of liability faced by cooperative directors and suggests practices and behavior that may help avoid such liability. The common law sources of liability are described. Liability of directors for criminal activities is noted, and statutory provisions placing liability on directors for their violation are outlined. Liabilities for improper distribution of dividends, depletion of capital, improper patronage refunds, and antitrust violations are singled out for more detailed discussion.

5. Marketing and Transportation of Grain by Local Cooperatives. A total of 2,060 local grain handling associations handled 4.7 billion bushels of grain during the 1982-83 marketing year. These associations handled an estimated 41 percent of total off-farm sales. About 40 percent of grain sold by cooperatives was corn. Wheat accounted for about 25 percent while soybeans and sorghum combined amounted to about 27 percent. Storage capacity per location was 630,000 bushels. In the past 3 years, about 10 percent of locally owned cooperative elevators lost rail service.

6. Farm Supply Cooperatives: Structure, Operations, and Growth in the Midsouth. Supply sales of Midsouth cooperatives grew at an annual rate of 43 percent from 1951 to 1983. This rate of growth was unequaled by supply cooperatives in any other region of the United States. Total cooperative sales of 300 member locals reached $1.1 billion in 1983. Supply sales in the five-State area averaged 13 percent of farm production expenditures in 1973 and 22 percent in 1983. Outside factors had only limited effect on cooperative growth. Regionals operated generally free of cooperative competition and serve member locals in a State area. Cooperative management practices and teamwork contributed most to faster growth: Regional managers, dedicated to serving farmers first, developed and coordinated teamwork between regional and local operations; local support and commitment encouraged cooperative employees to help each other help the farmer.

7. Financial Performance of Dairy Cooperatives. Combined balance sheets and operating statements were used to develop benchmark financial ratios for dairy marketing cooperatives. Data from 291 cooperatives were summarized for five types of dairy cooperatives, then by three types and three size combinations. Both type and size of cooperative made differences in most of the 16 financial ratios calculated as well as in the common size balance sheets and operating statements.

8. Young Member Programs for Cooperatives (ACS RR 48). The objective of this study was to provide cooperative decisionmakers with effective strategies for developing young member programs in local cooperatives. The following items were analyzed: (1) the range and scope of young member programs and activities utilized by a sample of local cooperatives, (2) the relationship of young member programs and activities to the legislative system of local cooperatives, (3) the factors that block integration of young member programs and activities into local cooperatives, and (4) the organizing procedures that help stimulate the development of young member programs and activities.

9. Financial Profile of Cooperatives Handling Grain First-Handlers, $15 Million Sales or Larger. This report examines the operating and financial data for these first-handlers related to several size factors--grain storage capacity, total sales, total assets, and net savings. In addition, the associations that handled predominantly corn/soybeans, wheat/sorghum, and wheat/barley were summarized separately and compared. The specific information presented in this report should help cooperative management and boards make sound business decisions as they confront new problems and the need for increasing amounts of capital for improved or new facilities and/or services.

10. Cooperatives' Position in the Potato Industry. This study's objective was to determine the current status of marketing and bargaining cooperatives in the U.S. potato industry. Seven bargaining associations serving over 3,000 members were involved in negotiations for almost 60 percent of the potatoes processed during the 1977-81 period. Twenty-seven potato marketing associations serving nearly 2,500 growers accounted for 8 percent of the fresh tablestock, 8 percent of seed potato, and 7 percent of the chipping potato sales in the 1977-81 period. The study implied more emphasis on direct sales, more f.o.b. sales, greater use of the Federal-State inspection service, and greater use of association labels were needed to strengthen marketing programs.

11. Cooperative Wool Marketing Pools and Warehouses' Industry Update. The report discusses the marketing and processing channels for wools sold by pools and cooperative warehouses; characteristics of wool pools and cooperative warehouses, including membership, volume, type of wools handled, and processing activities; merchandising practices of pools and cooperative warehouses, such as methods of soliciting and evaluating bids, terms of sale, marketing charges, inventory policies, and discounts; the relationship of pools and cooperative warehouses to grower-members and the Extension Service; problem areas for pools and cooperative warehouses; and strategic alternatives for pools and cooperative warehouses given the future outlook for the industry.

12. Fishery Cooperatives. This study describes the organizational and financial structure and operational activities of U.S. fishery cooperatives in 1980. Major aspects treated include: observance of cooperative principles, eligiblity and size of the membership and board; types of fishery cooperatives; supply and service activities performed; balance sheet and operating statement data; and equity composition and redemption. Selected data are reported in detail for fin fish, lobster, and shrimp cooperatives.

13. A Cost-Based Rate System for Bulk Milk Assembly. This report describes a cost-justified system for the determination of producer charges and hauler payments in bulk milk assembly. The rate structure system was developed as a result of a three-step process: (1) the disaggregation of total bulk assembly and transport costs into fixed truck and overhead cost, variable truck cost, and labor cost components; (2) the allocation of labor and fixed cost components across the time spent completing various route activities and

the allocation of variable truck costs over assembly and transport mileage; and (3) the reaggregation of the costs of individual route activities into a three-tiered producer charge and hauler payment system comprised of stop, volume, and mileage-related components.

14. Rationale for Establishing Plant Charges for Short Season Milk Sales to Deficit Areas. This study estimated the "give-up" charges for diverting Grade A milk from manufacturing areas to deficit fluid markets. The "give-up" charges were calculated from the net change in plant production and operating costs associated with the lower volume of milk after diversion to deficit fluid markets. The study indicated current "give-up" charges were justified on a cost basis.

15. Cooperative and Proprietary Agribusiness: Comparison of Performance. This report summarizes a series of comparative performance studies of cooperative versus proprietary: farm supply outlets, grain elevators, credit institutions, cheese plants, and fertilizer and chemical retailers. Measurements of performance analyzed were prices, efficiency, financial performance, growth and services. Implications for public policy, management, education and further research are addressed.

16. Economic Analysis of Export Promotion for Cooperatives. Many commodity and producer groups have undertaken organized efforts to enhance demand in foreign markets through promotion of U.S. farm products. The continuation of promotional programs depends on their effectiveness. This study summarizes selected government programs directed toward promoting exports, examines promotional programs used by cooperative and noncooperative firms in six case studies, and analyzes the effectiveness of promotion expenditures in terms of rate of return.

17. Grain Export Elevators: Economies of Size Analysis. The major findings, obtained through application of the economic engineering approach, are: (1) in the short-run, handling costs declined continuously for all model elevators as grain volume handled was increased to the maximum volumes that could be handled, and (2) in the long-run, diseconomies of size were evident for port elevators larger than four million bushels of storage capacity--the optimum-size port elevator. The foregoing results do not support the hypothesis of economies of size in port elevator operations.

18. Ocean Transportation of Grain: Economies of Size Analysis. The major findings, obtained through application of the economic engineering approach, are: (1) per ton shipping costs decline as cargo size increases for all model vessels, (2) economies of vessel size were evident throughout the span of the long-run average cost curve, and (3) other factors mitigate against increasing returns to size, such as inability to maintain full capacity utilization and limitations of several ports with respect to draft and berth size and capabilities of elevators.

19. Export Development Opportunities for West Coast Fruit and Vegetable Cooperatives. Key information for West Coast cooperatives regarding potential expansion of exports of processed fruit and vegetables to Pacific Rim countries of Asia is provided by: (1) Identifying specific export market opportunities, and (2) suggesting ways in which West Coast cooperatives may exploit these market opportunities. Six Asian countries are identified as having greatest potential for imports of processed fruits and vegetables: Japan, Hong Kong, Singapore, Taiwan, Malaysia, and the Republic of Korea.

20. State Security Law Exemptions for Farmer Cooperatives. The Federal Securities Act of 1933, the Federal Securities Exchange Act of 1934, and 42 States give farmer cooperatives a special status for securities regulation purposes. Treatment ranges from complete exemption from any regulation to limited exemption for very restricted financial instruments. The remaining States have no statutory exemption provisions, though administrative regulation may modify requirements for farmer cooperatives. This Staff Report is a comparative analysis of state statutory provisions giving special treatment to farmer cooperatives for securities regulation purposes.

21. Current Cooperative Cases: July 1983-June 1984. This report identifies court decisions issued from July 1983, through June 1984, as reported in the National Reporter system, the CCH Standard Federal Tax Reporter, and the CCH Trade Regulation Reporter, along with a few unreported decisions. One hundred and ten decisions involving cooperatives were found for this period. The brief description following each case citation highlights the main subject of the decision.

22. Feasibility of a Federation of Vegetable Cooperatives in the South. This study surveyed seven small fresh fruit (apple) and 33 fresh vegetable marketing cooperatives in eight southern States. The survey results identified 10 vegetable marketing cooperatives that appeared to have the greatest potential for participating in a federation. These cooperatives indicated an interest in a federation supplying the following three information and communications related services: market information, newsletter, and recordkeeping. The study concluded that communications would play a key role in coordinating the activities of the federation, whose members are widely dispersed across a number of States. An organizational strategy for the federation that emphasizes communications was developed, based on a network of microcomputers designed to provide a package of information delivery and retrieval services.

23. Cooperative Brands of Processed Foods. This report identifies more than 350 brands offered by 106 cooperatives. This represents an increase of 25 cooperatives and 50 brands since 1977, the first year this study was conducted. The 1984 study identifies the principal market (food service, retail, or industrial) for the products included.

Selected Examples of Recent Progress - Technical Assistance

1. Comparative Analysis of Costs of Manufacturing Cheese, Butter, Powder, and Related Products. This study examined costs of manufacturing cheese, butter, and powder at 32 plants operated by 8 dairy cooperatives. The analysis and data summarized in this study is utilized by the participating cooperatives to reduce plant production costs. This project is currently being updated for 60 plants operated by 12 dairy cooperatives.

2. Agra Land Market Position Study. This project evaluated the perceptions and attitudes of Agra Land held by Michigan farmers, low use local cooperatives, and managers and directors of local cooperatives. The results were utilized to improve member relations, advertising, operating performance, local relations and in developing an appropriate business strategy.

3. Dunkerton-Jesup, Iowa Merger Study. The feasibility of merger and consolidation options for the Dunkerton Cooperative Elevator and the Jesup Farmers Cooperative in Dunkerton and Jesup, Iowa were examined. The initial phase of the study brought out a high level of duplication of activity of the two cooperatives as well as trends toward weakening financial positions. In

phase II of the study, several operational options were examined. It was found that through consolidation of operations, additional net savings of about $200,000 per year would be generated without reducing services to patron-members. These savings come primarily from consolidation of administrative functions.

4. Alternatives for Improving Operations of the Sooner Cooperative. The purpose of this study was to identify and analyze critical issues for decisionmaking by the management and board of directors of this Oklahoma grain and farm supply cooperative. Pro-forma operating statements were developed under varying scenarios to demonstrate the impact of strategic decisions.

5. Feasibility of Combining Maui, Hawaii Farmers' Cooperative Exchange and Maui Vegetable Growers' Cooperative Association. This study examined the feasibility of combining two fresh produce marketing cooperatives on the Hawaiian island of Maui. Potential benefits from the merger were estimated at $289,000 on 1984 sales of $6.2 million. The projected savings represents a 4.6 percent increase in net margins.

Emerging and Developing Cooperatives

A total of 42 projects involving emerging or developing cooperatives were active in 1985. Conducted primarily by CDD staff, these projects involved cooperatives and producer groups, with a total membership of over 3,800. Summaries of several projects are listed below.

1. Feasibility of Virginia-Carolina Peanut Farmers' Cooperative Association, Franklin, VA. Financial projections were prepared using several different loan package, interest rate, and volume level alternatives. Based on these projections the cooperative obtained a loan and construction of shelling facilities was begun in April 1985. ACS is providing training to the manager and the board of directors. Presently 150 growers have joined the cooperative which began operations on October 1, 1985.

2. Financial Projections for Apple Cooperative, Inc., Edneyville, NC. In December 1984, the Board chairman requested a feasibility study of a modern cold storage and packing facility with presizing and color sort capabilities to serve over 200 apple growers. Preliminary evaluations helped select facility size and type of construction, and informed growers of the patronage commitment required to achieve acceptable packing fees. Four-year cash flow projections and financial statements for a specific site provided a focal point for securing grower commitments and for discussions with lenders.

3. Financial Projections for Tri-County Alfalfa Cooperative, Union City, TN. Federal and State agencies are encouraging farmers to switch from row crops to alfalfa hay or pasture to reduce severe erosion problems in the Reelfoot Lake area of northwestern Tennessee. On August 1, 1984, a producer steering committee asked ACS to evaluate potential for a cooperative to market hay from an existing and expanding production base. Subsequently, the request expanded to also include operation of a local alfalfa pelleting mill. Three-year financial projections and analysis are being made to determine capital and equity requirements, identify operating practices and to project producer fees and returns from alfalfa hay marketing and from alfalfa pellet production and marketing.

4. Hawaii Livestock Cooperative Association, Honolulu, Hawaii. Island Pork Producers Cooperative needed to make major changes in slaughter and processing arrangements as increasing fixed costs and inadequate services

from the pressing Honolulu urban environment eroded their ability to compete. The Hawaii field office has provided guidance and financial feasibility analysis for developing and operating new facilities on a cooperative basis at a rural site adjacent to existing beef slaughter facilities.

5. Feasibility of Expanded Operations for Southside Virginia Produce Cooperative, Halifax, VA. Broccoli and cantaloupe were identified by other agencies as feasible crops to supplement declining tobacco returns in south central Virginia. The North Carolina field office has provided organizational and operating guidance to the cooperative formed to market these crops for about 115 active producers in 1985. Also, three-year financial projections and recommendations for control and operation of their new modern icing and packing facility were developed.

6. Feasibility of Establishing a Virginia Cooperative Winery, Edinburg, VA. In July 1984, a group of grape producers in Virginia requested assistance in analyzing the feasibility of establishing a wine production and marketing cooperative. Staff surveyed producers, developed various projections, assisted in drafting legal documents, and trained the board of directors in cooperative principles and financial planning.

7. New York Grape Country Cooperative, Inc., Pulteney, NY. This study analyzed the feasibility of a grape marketing cooperative for fresh grapes and grape products. A survey was conducted identifying grower interest in a marketing cooperative and annual grape production. A study on the short-term marketing potential of a grape cooperative found inadequate markets to support such an operation. However, interested firms were identified for providing processing and marketing services for a new cooperative. In conjunction, a cooperative research agreement is being sponsored with Cornell University to evaluate the long-term market potential and alternatives for grape products.

Examples of Work Planned or Underway

1. Policy - Underway

A legal treatise on farmer cooperative law.
Internal legal/economic analysis.
Cooperative definitions and national public policy.
Guidelines for structuring successful joint ventures among agricultural cooperatives.
Strategies of Michigan Farm Bureau Services Cooperative in reorganization.
The status of an agricultural cooperative when a member goes bankrupt.
Cooperative enterprise theory in the agricultural sector.
Market performance in the California-Arizona citrus industry.
Legal considerations in local cooperative mergers, reorganizations, and acquisitions.

Policy - Planned

Legal and economic evaluation of cooperative bargaining.

2. Finance - Underway

Annual financial profile of the largest farmer cooperatives.
Nonqualified written notices of allocation.
Equity capital acquisition and redemption strategies with equitable treatment.
Development and analysis of cooperative financial performance measures.

Financial futures and local cooperative finance.
Leasing as an alternative method of financing cooperatives.
Changing and implementing credit policies for supply cooperatives.
A capital theory approach to the theory of agricultural cooperation.
Analysis of methods for handling cooperative losses.
Economic analysis of factors associated with financial success of farmer cooperatives.

3. Finance - Planned

Summary of trends in cooperative finance.
Effects of financial stress on cooperatives.
Alternative equity financing methods and ownership arrangements.
Impact of tax laws and decisions on cooperatives and members.
Development of a cooperative finance simulation model.

4. Management and Operations - Underway

Networking cooperative and member computers.
Structuring cooperatives to improve performance.
An investigation of cooperative member relations: implications for economic performance with an emphasis on the pooling activity.
Determinants of goal selection among 60 agricultural cooperative leaders.
Prototypic multicommodity cooperative integration in Vermont.
Transportation and cooperatives.
Member participation in farmer cooperatives.
Kentucky farm women and agricultural cooperatives.
Communications techniques of a major farm movement: a case study.
Impact of dual agriculture on cooperatives.
The effect of changes in farming patterns on cooperatives.
Case study of membership structuring of Mid-American Dairymen.
Potential impact of biotechnology on agricultural cooperatives.

Management and Operations - Planned

Development of measures for evaluating cooperative management performance.
A case study of California Canners and Growers.
The extent and type of research conducted by cooperatives.
Farm size attitudes towards cooperatives, and member participation.
Techniques for assessing member needs.
Techniques for member leadership identification in cooperatives.
University-industry cooperative research centers: a practice manual for cooperatives.
Assessing cooperative responsiveness to the changing structure of agriculture.
Rail contract negotiations - terms and strategy for farmer cooperatives.
The influence of change in agriculture on cooperative-member relations.
Short line rail operation.
Transportation law and farmer cooperatives.
Competitive changes and their effect on the structure of cooperative organizations.

5. Statistics and ADP - Underway

Farmer cooperative statistics, numbers, memberships, sales, assets, and net margins.

Statistics and ADP - Planned

Cooperative historical statistics, by States.

6. Crops - Underway

The future role of cooperatives in the apple industry.
Financial profile of the largest first-handler grain cooperatives with sales of $5 million to $14.9 million.
Forecasting cooperative net revenues: an alternative approach for raw product pricing of processed fruits and vegetables.
Pricing policy systems of grain marketing cooperatives.
Vertical organization and economic performance in grain cooperatives.

Crops - Planned

The role of cooperatives in the fruit, nut and vegetable subsectors.
Operating problems of fruit and vegetable cooperatives.
Cooperative marketing arrangements of dry beans and peas.
Marketing and transportation of grain by local cooperatives.
Role of cooperatives in rice marketing.
The role of cooperatives in price discovery.
Coordinated marketing for fruit and vegetable cooperatives.
Value added concept effects on centralized and federated grain and farm supply cooperatives.
Financial requirements and capital formation procedures of fruit and vegetable cooperatives
An economic assessment of producer cotton marketing programs.
Coordinating supply and demand by Hawaii's fruit and vegetable cooperatives.

7. Dairy, Livestock, and Poultry - Underway

Analytical model of the cooperative dairy sector.
Cost of processing fluid milk in cooperative plants.
The impact of cooperative membership on the performance of dairy farms.
The cost of manufacturing cheddar cheese under various technologies.
The future role of live animal marketing cooperatives.
Performance of dairy farms.

Dairy, Livestock, and Poultry - Planned

Dairy cooperative operations in a market-oriented pricing environment.
Alternative structures for large dairy cooperatives.
Marketing operations of dairy cooperatives--data base development.
The future role of artificial insemination cooperatives.

8. Farm Supplies - Underway

Cooperative role in fertilizer manufacturing and marketing.
Impact analysis model of the fertilizer industry.
Role of cooperatives in agricultural chemicals.
Supply operations of major regional cooperatives, 1985.
Analysis of cooperative farm supply outlet consolidation.
Local-regional cooperative relationships.

Farm Supplies - Planned

Role of cooperatives in feed manufacturing.
Servicing large and small farms: a study of equity issues.

9. International Trade - Underway

Potential for overseas marketing office for U.S. grain cooperatives.
Cooperative trade information package.
Analysis of the impact of pooling on the financial structure of regional marketing cooperatives with implications for export marketing.
Potential for cooperative grain exports to developing market economies.

International Trade - Planned

Country market and product analysis for fruits, nuts, and vegetables.
Alternate export marketing strategies.
Costs of selected trade functions.
Models of typical export companies.
Exports by cooperatives.
Protectionist policies and trade.
Foreign sales corporations.
Develop market research capabilities in foreign countries.

10. Special Topics - Underway

Cooperative participation in government programs.
Development of cooperative structure.
Appropriate role for local cooperatives.
The future of local farm supply/grain marketing cooperatives in the Cornbelt.
Development of cooperative structure.
Local cooperative competition (I).
Performance of economic coordination functions by farmer cooperatives.
Imperfect competition and producer cooperatives: the case of the West Alabama catfish industry.
Local cooperative competition (II).

11. Cooperative Development - Underway

Feasibility of a federation of vegetable cooperatives in the South.
Expansion of microcomputer and other potential federation services for southern vegetable marketing cooperatives.
An evaluation of the market potential and alternatives facing a new grape producer cooperative in New York.
Factors critical for the success or failure of emerging agricultural cooperatives.
Development and promotion of cooperative enterprises with recreation market potential.
Key factors contributing to the success and failure of cooperatives serving limited resource farmers.

Cooperative Development - Planned

A system for evaluating the potential for new cooperatives.
An assessment of awareness of ACS development programs among rural resource personnel.

ANNUAL REPORT

Program Accomplishments for FY 1985 and Plans for FY 1986

October 1985

NOTE: References to 1984, 1985, and 1986 are for fiscal years ending September 30.

United States
Department of
Agriculture

Agricultural
Cooperative
Service

Washington, D.C.
20250

October 1, 1985

The Agricultural Cooperative Service is the focal point of activity about cooperatives in the Department of Agriculture. Examples and descriptions of projects and activities conducted to support and further the efforts of agricultural cooperatives in the United States are depicted in this report. A balanced program of economic research, technical assistance, and education is conducted by the Agency that is responsive to the needs of agricultural producers and their cooperative organizations.

Cooperatives have a long and proud tradition of improving the ability of farmers and ranchers to compete in the free-market economy. This is accomplished in the manufacture and distribution of production inputs by cooperatives and through the marketing and processing of agricultural products. The role of cooperatives in the agricultural economy is endorsed and supported by the Department of Agriculture.

The current financial situation facing farmers is reflected by structural changes in cooperatives. The past year has been marked by major cooperative mergers, bankruptcies, and disinvestments. There have been positive steps by cooperatives, including the structuring of new marketing efforts, to increase returns to members of various agricultural products. Cooperatives are clearly in a transition period, and ACS is an active player in this process.

Employees of the Agency have earned a reputation for excellence in all program areas. I am proud of their achievements and look to the future with confidence. ACS is well prepared to assist farmers and their cooperatives.

Randall E. Torgerson

Randall E. Torgerson
Administrator

PROGRAM STATUS

The Agricultural Cooperative Service (ACS) is an independent agency of the U.S. Department of Agriculture, reporting to the Assistant Secretary for Marketing and Inspection Services. The Agency is headquartered in room 3405 of the Auditors Building, 14th St. and Independence Ave., S.W., Washington, D.C. Offices are also located in rooms 3117, 3127, and 3300 of the Auditors Building.

Legislative authority for the Agency is found in the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. The basic functions of ACS are to:

1. Carry out basic and applied research on various aspects of farmer-owned cooperatives.

2. Provide technical assistance to existing cooperatives on a variety of marketing, financial, organizational, and economic problems.

3. Provide assistance and technical support to newly emerging cooperative associations in their efforts to organize and establish sound business operations.

4. Collect and disseminate statistics on changes and trends in cooperative organizations, membership, structure, and operations.

5. Fulfill the responsibilities assigned by the Cooperative Marketing Act of 1926, "...to promote the knowledge of cooperative principles and practices and to cooperate in promoting such knowledge with educational and marketing agencies, cooperative associations, and others."

6. Make special studies on cooperatives at home and abroad that aid in developing a knowledge base useful in the development and practice of cooperation.

A skilled and professional staff is employed by the Agency to perform these basic functions. Indicative of their professional capability, most staff members hold one or more advanced degrees in agricultural economics, economics, law, rural sociology, or business administration. In addition, several employees have considerable work experience with farmer-owned cooperatives. Additional personnel, including administrative staff, information specialists, statistical and computer specialists, and secretaries support the work of the professional staff in carrying out the Agency's missions.

To fulfill its educational mandate set forth in the Cooperative Marketing Act of 1926 the Agency maintains a storehouse of information consisting of more than 100 research and educational publications about U.S. cooperatives.
A monthly magazine, Farmer Cooperatives, with a circulation of about 17,000 notes significant achievements by cooperatives and highlights agency research, technical assistance, and educational activities. The Agency also provides training to directors, managers, and members of developing cooperatives on a variety of cooperative subjects.

ACS serves as the statistical focal point for national and State data on farmer cooperatives. Data on number of cooperatives, membership, business volume, and financial condition are collected and analyzed to detect changes in structure, operations, and growth trends of cooperatives. The data are used extensively in ACS, university, and business research, in technical assistance, and in public policy and private decision-making.

Educational materials are prepared by ACS to promote the knowledge of cooperative principles and practices as a self-help means to increase family farm income. The Agency provides materials covering a wide range of subjects written from very elementary to advanced and technical levels.

These materials and information are distributed in cooperation with various educational organizations including national and State Extension Services, the American Institute of Cooperation, State farmer cooperative councils and committees, national and State farm and youth organizations, State departments of agriculture, adult education programs, and others.

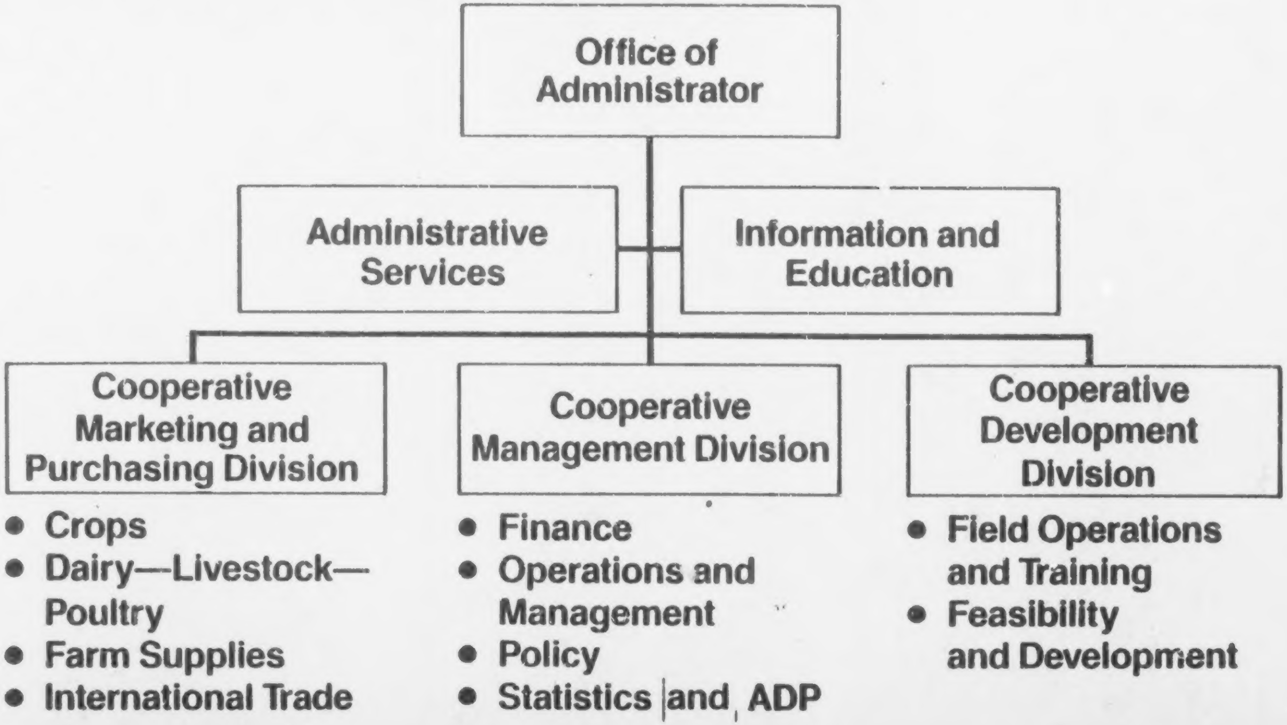
Organization

The organizational structure of ACS, based on a program area concept, provides necessary expertise for both commodity and functional demands. As shown in the accompanying figure, program areas of the Cooperative Marketing and Purchasing Division (CMPD) are organized by major commodity groups: Crops, including grains, oilseeds, fruits, and vegetables; Dairy, Livestock, and Poultry; Farm Supplies; and International Trade. Conversely, the Cooperative Management Division (CMD) reflects a functional orientation in program areas: Finance, Policy, Management and Operations, and Statistics and ADP. These two divisional structures provide for an efficient and effective meshing of agency resources when functional expertise in a single commodity area is required.

The Cooperative Development Division (CDD), has two program areas. The Feasibility and Development area is composed of Washington-based staff whose missions include technical assistance to producer groups interested in forming a cooperative, technical and educational assistance to newly emerging cooperatives, and limited research on aspects of cooperative development. The Field Operations and Training program area is responsible for the Agency's three field offices in London, KY, Greenville, NC, and Hilo, HI. Field office staff persons work closely with newly organized cooperative and producer groups by providing assistance in a limited number of organizational and operational areas.

Program area leaders serve as bench scientists with limited administrative duties. They are responsible for development of research agendas, head major research and technical assistance efforts, assist in setting time priorities for staff, and assist division directors in carrying out certain administrative duties.

Agricultural Cooperative Service



Office of Administrator

Administrative Services

Information and Education

Cooperative Marketing and Purchasing Division

- Crops
- Dairy—Livestock—Poultry
- Farm Supplies
- International Trade

Cooperative Management Division

- Finance
- Operations and Management
- Policy
- Statistics and ADP

Cooperative Development Division

- Field Operations and Training
- Feasibility and Development

Agency Resources, 1985-86

	1985 1/	1986 2/
Budget authority	$4,675,000	$4,713,000
Obligations		
Personnel compensation	2,484,587	2,583,970
Personnel benefits	276,255	279,069
Travel and transportation of persons	143,116	180,000
Transportation of things	309	1,000
Communications, utilities, other rent	125,840	134,000
Printing and reproduction	127,192	135,000
Other services	3/ 1,169,852	1,309,961
Supplies and materials	63,548	50,000
Equipment	160,429	40,000
Total direct obligations	$4,552,118	$4,713,000
Total staff years	65.71	64

1/ **Actual.**
2/ **Estimated.**
3/ **Includes** OC-43 interest.

STATISTICS OF U.S. FARMER COOPERATIVES

National statistics of all farmer cooperatives are compiled annually by the Statistics and ADP program area of CMD. This is the only source of national statistics on farmer cooperatives and represents a barometer of cooperative activity throughout the United States. Computerized summary and edit procedures have been developed to improve the timeliness of this data series. Additionally, a combination of census and sampling procedures have been employed to reduce the respondent burden. A full census of all cooperatives is conducted every four years. Stratified random samples are used in the alternate years, greatly reducing the data collection and handling requirements. The 1984 survey was a sample enumeration.

Business volume of the Nation's farmer cooperatives in 1984 increased 9.4 percent, but net margins declined 4.4 percent. Cooperatives reported record high combined sales of $73.1 billion, compared with $66.8 billion in 1983. Volume surpassed the previous record of $71.5 billion in 1981. Net margins were $1.01 billion, compared with $1.06 billion in 1983 and $854 million in 1982.

The rise in business volume was attributed mostly to larger quantities of grain marketed and fertilizer sold by cooperatives. Total cooperative business volume includes marketing--value of products sold; farm supplies--sales of fertilizer, chemicals, fuels, feed, and other supplies to members and patrons; and receipts from related services such as trucking, storage, ginning, and drying.

Cooperative numbers continued to decline--from 5,989 to 5,782--due to restructuring of cooperatives through mergers, consolidations, acquisitions, and going out of business. Memberships of 4.8 million were down 2.3 percent from 4.95 million in 1983. Memberships were higher than farm numbers because many farmers belonged to more than one cooperative. Membership per association averaged 837, compared with 827 for 1983. Marketing volume of $54.6 billion was up 10.6 percent from the $49.3 billion in 1983.

Grain, the leading farm product handled by cooperatives, increased 27.1 percent to $20.6 billion. But dairy, the second biggest product, decreased to $16.7 billion or less than 1 percent.

Several other farm products also showed large increases: fruits and vegetables at $5.1 billion were up 19.3 percent; cotton and cotton products at $2.5 billion was up 43.6 percent; dry beans and peas were up 47.3 percent; and tobacco was up 36.5 percent. Livestock and livestock products showed the largest decrease--with sales at $3.7 billion down 22.6 percent from 1983.

Farm supply volume was nearly $17 billion, up 6.4 percent from 1983. Of the major farm supplies, seed was up 21.5 percent, fertilizer up 21.1 percent, and farm chemicals up 16.8 percent. Feed showed a slight increase--up 1.3 percent. Although petroleum products continued to account for the largest volume among farm supplies, $5.5 billion, it increased less than 1 percent from 1983.

Declines occurred for other farm supply commodities: farm machinery down 11 percent and other supplies down less than 1 percent. Value of other services related to farm business rose to $1.5 billion, up 3.6 percent from $1.47 billion in 1983.

Farmer cooperative assets totaled $29.2 billion, up 1.3 percent from $28.8 billion in 1983. Total liabilities dropped from $17.3 billion to $17 billion, down 1.6 percent. Net worth, or member and patron equity, increased 5.6 percent from $11.5 billion to $12.2 billion. The proportion of total assets financed by equity increased from 40 to 41.7 percent.

Statistics and ADP Publications

Farmer Cooperative Statistics, CIR 1, Section 27. This publication, updated with the findings of an annual survey of cooperatives, includes information and trends in total business volume, number of organizations, memberships, balance sheet, net margins, and other selected items.

1984 Business Volume of Farmer Cooperatives 1/

Commodities	Cooperatives handling 2/	Business volume 3/
	Number	$1,000
Products Marketed:		
Beans and peas (dry edible)	52	120,214
Cotton and cotton products	487	2,471,366
Dairy products	418	16,707,616
Fruits and vegetables	394	5,058,900
Grain, soybeans, and soybean meal and oil	2,275	20,607,295
Livestock and livestock products	402	3,688,903
Nuts	35	877,942
Poultry products	63	1,116,917
Rice	62	924,588
Sugar products	47	1,715,066
Tobacco	35	537,417
Wool and mohair	181	32,668
Miscellaneous	102	697,128
Total farm products	4/ 4,173	54,556,020
Supplies purchased:		
Building materials	1,887	448,433
Containers	520	100,809
Farm chemicals	3,407	1,460,343
Farm machinery and equipment	1,690	323,618
Feed	3,295	3,640,592
Fertilizer	3,442	3,434,726
Meats and groceries	436	156,212
Petroleum products	2,742	5,477,408
Seed	3,318	586,855
Other supplies	3,922	1,339,984
Total farm supplies	4/ 4,558	16,968,981
Related services:		
Trucking, cotton ginning, storage, grinding, locker plants, miscellaneous	4/ 4,129	1,521,539
Total business	5,782	73,046,540

1/ Preliminary.
2/ Based on 1983 Census of Farmer Cooperatives.
3/ Volume excludes intercooperative business.
4/ Total adjusted for duplication arising from multiple activities.

1984 Farmer Cooperative Numbers and Memberships 1/

Commodities	Cooperatives 2/	Memberships
	Number	
Products marketed:		
Cotton and products	436	108,176
Dairy products	384	167,327
Fruits and vegetables	347	62,816
Grain, soybeans, and soybean meal and oil	1,639	1,127,344
Livestock, wool, and poultry products	515	530,446
Rice	55	20,549
Sugar products	38	11,126
Other 3/	100	289,256
Total farm products	3,514	2,317,040
Total farm supplies	2,136	2,397,152
Total services	132	127,557
Total	5,782	4,841,749

1/ Preliminary.

2/ Many cooperatives are multiproduct and multifunctional in operations and classified according to predominant commodity or function indicated by business volume.

3/ Other includes beans and peas (dry edible), nuts, tobacco, and miscellaneous.

RESEARCH ACCOMPLISHMENTS

Research accomplishments for the Agency covered a wide range of subjects in 1985. A combination of resources were employed to conduct the research program including cooperative research agreements and Agency personnel. Ninety-three research projects were active in 1985, 31 internal, and 62 through cooperative research agreements. Twenty-one projects were completed and twenty-three projects initiated during the year.

In addition, three-year research plans were prepared for all program areas. Conducted by the professional staff, these research agendas provide for continuity of research efforts and focus attention on those issues most critical to cooperatives.

Summaries of major Agency research projects completed or published in 1985 follow:

A Reserve Balancing Pool for Services by Dairy Cooperatives (ACS RR 51)

The rationale for compensating dairy cooperatives for the costs incurred in balancing milk supply for the fluid market is examined. A reserve-balancing pool is proposed to facilitate deducting supply-balancing service credit from a marketwide producer pool and making payment to cooperatives for providing the services. The volume of necessary reserves maintained for the fluid market determines the size of the reserve-balancing pool. A dairy cooperative qualifies for pool payment based on the volume of milk delivered for fluid uses and on the volume of necessary reserves actually balanced. An alternative qualification is to allocate the volume of necessary reserves each cooperative has to balance according to a cooperative's market share of milk for fluid and other uses.

Annual Financial Profile of Largest Farmer Cooperatives

This study represents the fifth of an annual series analyzing changes and trends in sales, assets, net margins, debt utilization, and net worth of the 100 largest farmer cooperatives. In fiscal 1984, these cooperatives recorded total revenues of $53.2 billion, a 9 percent increase from 1983. Total assets declined 2 percent to $16.6 billion. Net worth as a percentage of total assets climbed 2.2 percentage points to 33.8 percent. Net margins (after losses) increased 6 percent to $421 million. In addition, an analysis of 40 large cooperatives was conducted, providing performance information three months earlier than previous years.

Using Export Companies to Expand Cooperatives' Foreign Sales (ACS RR 52)

Many agricultural cooperatives can expand foreign sales by using export management companies (EMC's). Small cooperatives may find foreign markets too costly and time consuming to penetrate without EMC help. Larger cooperatives may use EMC's for sales in selected foreign markets or to enhance sales of particular products. Services offered by EMC's and typical fees are discussed along with some guidelines for selecting an EMC.

Director Liability in Farmer Cooperatives (ACS CIR 34)

This study surveys and discusses possible sources of liability faced by cooperative directors and suggests practices and behavior that may help avoid such liability. The common law sources of liability are described. Liability of directors for criminal activities is noted, and statutory laws placing liability on directors for their violation are outlined. Liabilities for improper distribution of dividends, depletion of capital, improper patronage refunds, and antitrust violations are singled out for more detailed discussion.

Marketing and Transportation of Grain by Local Cooperatives (ACS RR 47)

A total of 2,060 local grain handling associations handled 4.7 billion bushels of grain during the 1982-83 marketing year. These associations handled an estimated 41 percent of total off-farm sales. About 40 percent of grain sold by cooperatives was corn. Wheat accounted for about 25 percent while soybeans and sorghum combined amounted to about 27 percent. Storage capacity per location was 630,000 bushels. In the past 3 years, about 10 percent of locally owned cooperative elevators lost rail service.

Petroleum Operations of Farmer Cooperatives (ACS RR 46)

Based on a survey of 20 regional and interregional cooperatives, this study showed significant changes in the scope and nature of involvement by cooperatives in most levels of the petroleum industry. Total volumes handled by cooperatives fell in production, refining, and distribution. Efforts by cooperatives to strengthen the security of their supplies are shown, as is their continued high vulnerability to disruption.

Farm Supply Cooperatives: Structure, Operations, and Growth in the Midsouth (ACS RR 50)

Supply sales of Midsouth cooperatives grew at an annual rate of 43 percent from 1951 to 1983. This rate of growth was unequaled by supply cooperatives in any other region of the United States. Total cooperative sales of 300 member locals reached $1.1 billion in 1983. Supply sales in the five-State area averaged 13 percent of farm production expenditures in 1973 and 22 percent in 1983. Outside factors had only limited effect on cooperative growth. Regionals operated generally free of cooperative competition and serve member locals in a State area. Cooperative management practices and teamwork contributed most to faster growth: Regional managers, dedicated to serving farmers first, developed and coordinated teamwork between regional and local operations; local support and commitment encouraged cooperative employees to help each other help the farmer.

Financial Performance of Dairy Cooperatives (ACS RR 49)

Combined balance sheets and operating statements were used to develop benchmark financial ratios for dairy marketing cooperatives. Data from 291 cooperatives were summarized for five types of dairy cooperatives, then by three types and three size combinations. Both type and size of cooperative made differences in most of the 16 financial ratios calculated as well as in the common size balance sheets and operating statements.

Young Member Programs for Cooperatives (ACS RR 48)

The objective of this study was to provide cooperative decisionmakers with effective strategies for developing young member programs in local cooperatives. The following items were analyzed: (1) the range and scope of young member programs and activities utilized by a sample of local cooperatives, (2) the relationship of young member programs and activities to the legislative system of local cooperatives, (3) the factors that block integration of young member programs and activities into local cooperatives, and (4) the organizing procedures that help stimulate the development of young member programs and activities.

Financial Profile of Cooperatives Handling Grain First-Handlers, $15 Million Sales or Larger

This report examines the operating and financial data for these first-handlers related to several size factors--grain storage capacity, total sales, total assets, and net savings. In addition, the associations that handled predominantly corn/soybeans, wheat/sorghum, and wheat/barley were summarized separately and compared. The specific information presented in this report should help cooperative management and boards make sound business decisions as they confront new problems and the need for increasing amounts of capital for improved or new facilities and/or services.

Cooperatives' Position in the Potato Industry (ACS RR 39)

This study's objective was to determine the current status of marketing and bargaining cooperatives in the U.S. potato industry. Seven bargaining associations serving over 3,000 members were involved in negotiations for almost 60 percent of the potatoes processed during the 1977-81 period. Twenty-seven potato marketing associations serving nearly 2,500 growers accounted for 8 percent of the fresh tablestock, 8 percent of seed potato, and 7 percent of the chipping potato sales in the 1977-81 period. The study implied more emphasis on direct sales, more f.o.b. sales, greater use of the Federal-State inspection service, and greater use of association labels were needed to strengthen marketing programs.

Cooperative Wool Marketing Pools and Warehouses' Industry Update (ACS RR 41)

The report discusses the marketing and processing channels for wools sold by pools and cooperative warehouses; characteristics of wool pools and cooperative warehouses, including membership, volume, type of wools handled, and processing activities; merchandising practices of pools and cooperative warehouses, such as methods of soliciting and evaluating bids, terms of sale, marketing charges, inventory policies, and discounts; the relationship of pools and cooperative warehouses to grower-members and the Extension Service; problem areas for pools and cooperative warehouses; and strategic alternatives for pools and cooperative warehouses given the future outlook for the industry.

Merging Cooperatives: Planning, Negotiating, Implementing (ACS RR 43)

This report provides guidelines and associated information for cooperatives that are considering reorganization through merger or consolidation with other cooperatives. "People" considerations take priority throughout the reorganization process. Directors, employees, members, patrons, community leaders, and ordinary citizens all have a stake when the structure and operation of a cooperative is changed. Providing feedback from members and employees to management was viewed as essential to successful reorganization. The study also includes observations from cooperative officials knowledgeable about reorganization.

Fishery Cooperatives (ACS RR 44)

This study describes the organizational and financial structure and operational activities of U.S. fishery cooperatives in 1980. Major aspects treated include: observance of cooperative principles, eligiblity and size of the membership and board; types of fishery cooperatives; supply and service activities performed; balance sheet and operating statement data; and equity composition and redemption. Selected data are reported in detail for fin fish, lobster, and shrimp cooperatives.

Coordinating Transportation Functions Through Export Trading Companies (ACS Staff Report)

A descriptive analysis of how export trading companies specializing in transportation can serve agricultural exporters. The study describes perceptions of the Export Trading Company Act by agricultural exporters, evaluates structural alternatives, and discusses implications for cooperative exporters. (Joint project with USDA's Office of Transportation).

A Cost-Based Rate System for Bulk Milk Assembly (Cornell A.E. Res. 85-9)

This report describes a cost-justified system for the determination of producer charges and hauler payments in bulk milk assembly. The rate structure system was developed as a result of a three-step process: (1) the disaggregation of total bulk assembly and transport costs into fixed truck and overhead cost, variable truck cost, and labor cost components; (2) the allocation of labor and fixed cost components across the time spent completing various route activities and the allocation of variable truck costs over assembly and transport mileage; and (3) the reaggregation of the costs of individual route activities into a three-tiered producer charge and hauler payment system comprised of stop, volume, and mileage-related components.

Rationale for Establishing Plant Charges for Short Season Milk Sales to Deficit Areas

This study estimated the "give-up" charges for diverting Grade A milk from manufacturing areas to deficit fluid markets. The "give-up" charges were calculated from the net change in plant production and operating costs associated with the lower volume of milk after diversion to deficit fluid markets. The study indicated current "give-up" charges were justified on a cost basis.

Cooperative and Proprietary Agribusiness: Comparison of Performance (Purdue University Research Bulletin 982)

This report summarizes a series of comparative performance studies of cooperative versus proprietary: farm supply outlets, grain elevators, credit institutions, cheese plants, and fertilizer and chemical retailers. Measurements of performance analyzed were prices, efficiency, financial performance, growth and services. Implications for public policy, management, education and further research are addressed.

Economic Analysis of Export Promotion for Cooperatives (ACS Staff Report)

Many commodity and producer groups have undertaken organized efforts to enhance demand in foreign markets through promotion of U.S. farm products. The continuation of promotional programs depends on their effectiveness. This study summarizes selected government programs directed toward promoting exports, examines promotional programs used by cooperative and noncooperative firms in six case studies, and analyzes the effectiveness of promotion expenditures in terms of rate of return.

Grain Export Elevators: Economies of Size Analysis (ACS Staff Report)

The major findings, obtained through application of the economic engineering approach, are: (1) in the short-run, handling costs declined continuously for all model elevators as grain volume handled was increased to the maximum volumes that could be handled, and (2) in the long-run, diseconomies of size were evident for port elevators larger than four million bushels of storage capacity—the optimum-size port elevator. The foregoing results do not support the hypothesis of economies of size in port elevator operations.

Ocean Transportation of Grain: Economies of Size Analysis (ACS Staff Report)

The major findings, obtained through application of the economic engineering approach, are: (1) per ton shipping costs decline as cargo size increases for all model vessels, (2) economies of vessel size were evident throughout the span of the long-run average cost curve, and (3) other factors mitigate against increasing returns to size, such as inability to maintain full capacity utilization and limitations of several ports with respect to draft and berth size and capabilities of elevators.

Export Development Opportunities for West Coast Fruit and Vegetable Cooperatives

Key information for West Coast cooperatives regarding potential expansion of exports of processed fruit and vegetables to Pacific Rim countries of Asia is provided by: (1) Identifying specific export market opportunities, and (2) suggesting ways in which West Coast cooperatives may exploit these market opportunities. Six Asian countries are identified as having greatest potential for imports of processed fruits and vegetables: Japan, Hong Kong, Singapore, Taiwan, Malaysia, and the Republic of Korea.

State Security Law Exemptions for Farmer Cooperatives
(ACS Staff Report)

The Federal Securities Act of 1933, the Federal Securities Exchange Act of 1934, and 42 States give farmer cooperatives a special status for securities regulation purposes. Treatment ranges from complete exemption from any regulation to limited exemption for very restricted financial instruments. The remaining States have no statutory exemption provisions, though administrative regulation may modify requirements for farmer cooperatives. This Staff Report is a comparative analysis of state statutory provisions giving special treatment to farmer cooperatives for securities regulation purposes.

Current Cooperative Cases: July, 1983-June, 1984
(ACS Staff Report)

This report identifies court decisions issued from July, 1983, through June, 1984, as reported in the National Reporter system, the CCH Standard Federal Tax Reporter, and the CCH Trade Regulation Reporter, along with a few unreported decisions. One hundred and ten decisions involving cooperatives were found for this period. The brief description following each case citation highlights the main subject of the decision.

Feasibility of a Federation of Vegetable Cooperatives in the South

This study surveyed seven small fresh fruit (apple) and 33 fresh vegetable marketing cooperatives in eight southern States. The survey results identified 10 vegetable marketing cooperatives that appeared to have the greatest potential for participating in a federation. These cooperatives indicated an interest in a federation supplying the following three information and communications related services: market information, newsletter, and recordkeeping. The study concluded that communications would play a key role in coordinating the activities of the federation, whose members are widely dispersed across a number of States. An organizational strategy for the federation that emphasizes communications was developed, based on a network of microcomputers designed to provide a package of information delivery and retrieval services.

Cooperative Brands of Processed Foods

This report identifies more than 350 brands offered by 106 cooperatives. This represents an increase of 25 cooperatives and 50 brands since 1977, the first year this study was conducted. The 1984 study identifies the principal market (food service, retail, or industrial) for the products included.

TECHNICAL ASSISTANCE ACCOMPLISHMENTS

During 1985, Agency staff participated in 62 formal technical assistance projects for 83 cooperatives and producer groups. A list of technical assistance projects is provided in Appendix II.

Control and review procedures for technical assistance are accomplished through internal review of reports and recipient evaluation. Average scores for 21 projects from 47 respondents are shown below. Surveys of technical assistance recipients help pinpoint weaknesses in analysis or presentation and provide direction for staff training, new analytical methods, and improved technical assistance efforts.

Agricultural Cooperative Technical Assistance Evaluation Summary

Response	Average Score
1. The analysis focused on the critical problem(s) related to your request.	4.3
2. The investigation of the situation was logical and thorough	4.4
3. The information used in the study was up to date and complete	4.3
4. Oral reports were clear and understandable (if applicable)	4.3
5. Written reports were clear and understandable (if applicable)	4.4
6. Reports and assistance were provided on a timely basis	4.2
7. Cooperative principles and practices were successfully communicated by ACS staff	4.3
8. Meetings conducted by ACS staff were productive and effective	4.2
9. ACS assistance compared favorably to assistance you have received or seen from others	4.4
10. I would recommend ACS to other farmers or their cooperatives for technical assistance.	4.6
11. Overall, I would rate the quality of ACS technical assistance as:	4.2

Score format, responses 1-10: 1-Strongly disagree; 2-Disagree; 3-Neither agree nor disagree; 4-Agree; 5-Strongly agree.

Score format, response 11: 1-Poor; 2-Below average; 3-Average; 4-Above average; 5-Superior.

Established Cooperatives

Projects involving established cooperatives, conducted primarily by CMPD and CMD staff, totaled 20 in 1985. Many commodity groups and business issues were addressed. Summaries of several projects are listed below.

Comparative Analysis of Costs of Manufacturing Cheese, Butter, Powder, and Related Products

This study examined costs of manufacturing cheese, butter, and powder at 32 plants operated by 8 dairy cooperatives. The analysis and data summarized in this study is utilized by the participating cooperatives to reduce plant production costs. This project is currently being updated for 60 plants operated by 12 dairy cooperatives.

Agra Land Market Position Study

This project evaluated the perceptions and attitudes of Agra Land, a Michigan based regional supply cooperative, held by farmers, low use local cooperatives, and managers and directors of local cooperatives. The results were utilized to improve member relations, advertising, operating performance, local relations and in developing an appropriate business strategy.

Dunkerton-Jesup Merger Study

The feasibility of merger and consolidation options for the Dunkerton Cooperative Elevator and the Jesup Farmers Cooperative in Dunkerton and Jesup, Iowa were examined. The initial phase of the study brought out a high level of duplication of activity of the two cooperatives as well as trends toward weakening financial positions. In phase II of the study, several operational options were examined. It was found that through consolidation of operations, additional net savings of about $200,000 per year would be generated without reducing services to patron-members. These savings come primarily from consolidation of administrative functions.

Alternatives for Improving Operations of the Sooner Cooperative

The purpose of this study was to identify and analyze critical issues for decisionmaking by the management and board of directors of this Oklahoma grain and farm supply cooperative. Pro-forma operating statements were developed under varying scenarios to demonstrate the impact of strategic decisions.

Feasibility of Combining Maui Farmers' Cooperative Exchange and Maui Vegetable Growers' Cooperative Association.

This study examined the feasibility of combining two fresh produce marketing cooperatives on the Hawaiian island of Maui. Potential benefits from the merger were estimated at $289,000 on 1984 sales of $6.2 million. The projected savings represents a 4.6 percent increase in net margins.

Cooperative Cottonseed Oil Mills: 1983-84 Season

This report surveyed the operational efficiency of 14 cooperative oil mills including costs, revenues, prices, and per-unit utilization. Results were presented for various cross-sectional groupings to facilitate comparisons. These 14 mills serve over 400 cooperative cotton gins throughout the Cotton Belt.

Emerging and Developing Cooperatives

A total of 42 projects involving emerging or developing cooperatives were active in 1985. Conducted primarily by CDD staff, these projects involved cooperatives and producer groups, with a total membership of over 3,800. Summaries of several projects are listed below.

Feasibility of Virginia-Carolina Peanut Farmers' Cooperative Association, Franklin, VA

Financial projections were prepared using several different loan package, interest rate, and volume level alternatives. Based on these projections the cooperative obtained a loan and construction of shelling facilities was begun in April 1985. ACS is providing training to the manager and the board of directors. Presently 150 growers have joined the cooperative which is scheduled to begin operations on October 1, 1985.

Financial Projections for Apple Cooperative, Inc., Edneyville, NC

In December 1984, the Board chairman requested a feasibility study of a modern cold storage and packing facility with presizing and color sort capabilities to serve over 200 apple growers. Preliminary evaluations helped select facility size and type of construction, and informed growers of the patronage commitment required to achieve acceptable packing fees. Four-year cash flow projections and financial statements for a specific site provided a focal point for securing grower commitments and for discussions with lenders.

Financial Projections for Tri-County Alfalfa Cooperative, Union City, TN

Federal and State agencies are encouraging farmers to switch from row crops to alfalfa hay or pasture to reduce severe erosion problems in the Reelfoot Lake area of northwestern Tennessee. On August 1, 1984, a producer steering committee asked ACS to evaluate potential for a cooperative to market hay from an existing and expanding production base. Subsequently, the request expanded to also include operation of a local alfalfa pelleting mill. Three-year financial projections and analysis are being made to determine capital and equity requirements, identify operating practices and to project producer fees and returns from alfalfa hay marketing and from alfalfa pellet production and marketing.

Hawaii Livestock Cooperative Association, Honolulu, Hawaii

Island Pork Producers Cooperative needed to make major changes in slaughter and processing arrangements as increasing fixed costs and inadequate services from the pressing Honolulu urban environment eroded their ability to compete. The Hawaii field office has provided guidance and financial feasibility analysis for developing and operating new facilities on a cooperative basis at a rural site adjacent to existing beef slaughter facilities.

Feasibility of Expanded Operations for Southside Virginia Produce Cooperative, Halifax, VA

Broccoli and cantaloupe were identified by other agencies as feasible crops to supplement declining tobacco returns in south central Virginia. The North Carolina field office has provided organizational and operating guidance to the cooperative formed to market these crops for about 115 active producers in 1985. Also, three-year financial projections and recommendations for control and operation of their new modern icing and packing facility were developed.

Feasibility of Establishing a Virginia Cooperative Winery, Edinburg, VA

In July 1984, a group of grape producers in Virginia requested assistance in analyzing the feasibility of establishing a wine production and marketing cooperative. Staff surveyed producers, developed various projections, assisted in drafting legal documents, and trained the board of directors in cooperative principles and financial planning.

New York Grape Country Cooperative, Inc., Pulteney, NY

This study analyzed the feasibility of a grape marketing cooperative for fresh grapes and grape products. A survey was conducted identifying grower interest in a marketing cooperative and annual grape production. A study on the short-term marketing potential of a grape cooperative found inadequate markets to support such an operation. However, interested firms were identified for providing processing and marketing services for a new cooperative. In conjunction, a cooperative research agreement is being sponsored with Cornell University to evaluate the long-term market potential and alternatives for grape products.

COOPERATIVE EDUCATION ACCOMPLISHMENTS

An important element of the Agency's Information and Education (I&E) staff is cooperative education. The major purpose of I&E is the dissemination of information generated by the Agency. Information is an integral component of education, and ACS is the central storehouse for cooperative information. ACS staff members also contribute to an extensive number of cooperative education activities through participation in conferences, seminars, and meetings.

During 1985, ACS staff were active participants in AIC's National Institute on Cooperative Education; Graduate Institute of Cooperative Leadership; the annual meetings of American Agricultural Economics Association and National Council of Farmer Cooperatives; various State cooperative council meetings; State cooperative attorney workshops; and guest lecturers for university courses dealing with cooperatives. Staff involvement included coordination, teaching, program planning, material preparation, and panel discussion.

A major instrument in the dissemination of information is Farmer Cooperatives magazine. Now in its 51st year, it is the only national magazine for agricultural cooperatives. Primarily a management publication, it is sent to all agricultural cooperatives in the U.S. Major features and topics reported during the year included: Legal Corner, a monthly summary of significant court cases involving agricultural cooperatives; Financial Profile of the Top 100 Cooperatives, a series of four articles providing rapid dissemination of financial information; transportation deregulation; tax and legal issues; cooperative statistics; and cooperative market shares.

ACS is the primary source of educational materials on cooperatives for many schools, cooperative associations and organizations, and others of the general public needing basic materials on all aspects of cooperative organization, principles, operations, finance, legal and tax status, and rights and responsibilities. In total, ACS distributed through a dozen exhibits and by request 116,819 copies of publications.

Information and Education Research Agreements

- o Director training in the Pacific Northwest.
- o Program learning guides for cooperative personnel.

GENERAL PROGRAM ACCOMPLISHMENTS

Enhanced Computer Capabilities

The Agency completed the third phase of its Information Resources Management initiative with the procurement of 26 microcomputers, related periphals, and software. Upon receipt of this equipment, expected in the first quarter of 1986, each staff member will be assigned a microcomputer. ACS is one of the leading agencies in the Department utilizing microcomputers in its research and technical assistance efforts.

Cooperative Planners and Economists Conference

Over 50 cooperative planners and economists attended this conference held in Washington, DC, sponsored by ACS, The American Institute of Cooperation, and the Farm Credit Banks of Baltimore. The focus of the conference was the 1985 Farm Bill and its implications for cooperatives.

1890 Coordinator

In response to the Secretary of Agriculture's request that all USDA agencies encourage black farmers to participate in Federal programs, ACS increased its efforts to help black farmers improve their farming operations through cooperative activity. A coordinator was appointed to develop and maintain ongoing contacts with the 1890 institutions (historically black land-grant colleges and universities) to facilitate information exchange, closer working relationships, and improved delivery of ACS services to black farmers. Three 1890 institutions were visited during the year to acquaint their staff with Agency programs and services, and to explore methods of improved cooperation. Agency staff also participated in the 42nd Professional Agricultural Workers Conference, sponsored by the Tuskegee Institute, and the Small Farm Family Education Assistants Training Program sponsored by the Missouri Extension Service at Lincoln University.

Human Resource Development

ACS continued a program of upgrading the skills and capabilities of the staff. Three staff members attended the Graduate Institute of Cooperative Leadership. A number of staff received computer training from the Office of Technology, USDA Graduate School, and the Washington Computer Center.

USDA Superior Service Award

Charles Ling, an agricultural economist in the dairy program area of CMPD, received the department's superior service award in 1985. Ling is well known for his research studies aimed at improving the operations of dairy cooperatives. His most notable studies looked at manufacturing costs of dairy cooperative plants and pricing plans for managing seasonal milk supply variations.

Statistics and Automated Data Processing Task Force

This task force, appointed by the Administrator, evaluated the compilation and publishing process for the Agency's annual statistical report on cooperatives. Recommendations of this group are currently being implemented that will improve the timeliness, accuracy, and usefulness of this data series.

Outside Program Review

A panel of experts from the cooperative community conducted a review of the Agency's program, missions, and role as a public agency serving agricultural cooperatives. The review team strongly reaffirmed this support for the Agency and presented their review and recommendations to the Secretary of Agriculture. Members of the review team were: Joe Coffey, Southern States; Paul Brower, Gold Kist, Inc.; Nancy Kantola, Kansas Cooperative Council; Vern Moore, Land O'Lakes, Inc.; Bill Pettit, Central Bank for Cooperatives; and Carl Zurborg, Swiss Valley Farms.

Agency Program Retreat

A successful agency retreat was held in Gettysburg, PA, during September. This session provided an open environment to discuss the recommendations of the Outside Program Review and staff identified concerns. Recommendations and ideas will be implemented during the 1986 fiscal year.

Professional Activities

Agency staff members had an active year in professional organizations and activities. Staff participated in the Northeast and Southeast Regional Dairy Research Committees, the Dairy Outlook and Situation Board, National Society of Accountants for Cooperatives meetings, and others. Papers and articles were published in the Journal of Agricultural Taxation of Law, World Agriculture, and the Cooperative Accountant. Nine articles were published in American Cooperation 1984. In addition, Agency staff members were selected as editor and associate editor of the new Journal of Agricultural Cooperation.

RESEARCH PLANS

The Agency plan of research is reinforced by the primary goal of enhanced farm income through improved cooperative operations. Agricultural producers participate through cooperatives in the market arena manufacturing supplies and other production inputs and marketing and processing agricultural commodities. Improvements at the cooperative level directly impact individual farmer-members. The current research agenda is directed toward the following broad objectives each consistent with the primary goal of the Agency:

1. To improve the information base upon which cooperative leaders and members, public decision-makers, academia, and the general public may draw upon to conduct analysis, design operations, and determine policy over a broad range of cooperative activities and issues.

2. To improve the organization, operations, and business performance of cooperatives in all aspects of marketing members production and in providing production items and related services.

3. To develop improved measures, standards, and analysis of cooperative performance.

4. To improve farmers' understanding of their cooperatives to increase participation and informed decision-making.

5. To improve the success potential for small and emerging cooperative organizations.

Based on the above goals and objectives, each Agency division developed its research agenda, taking into consideration the current economic environment in the agricultural sector. These research agendas were reviewed by the Administrator and priorities for the year were established. In addition, input from leaders in agricultural cooperatives was obtained in establishing those issues of greatest concern. For each division two groups of projects are listed, ongoing and proposed. Ongoing projects are those which were initiated before the start of fiscal year 1986 and represent a prior commitment of resources. ACS will enter the year with 72 ongoing research projects. Proposed research includes projects which have been approved for initiation in 1986 and projects planned for initiation. The priority of proposed research projects is flexible, allowing initiation of projects which become increasingly important as the economic climate and events change. The amount of new research undertaken in 1986 will depend on the volume of technical assistance provided, staff member changes, and appropriations.

Cooperative Management Division

The major objective of the Cooperative Management Division is to provide a knowledge base that will help cooperative officials and public policy makers improve the functional aspects of farmer marketing, supply, and related service cooperatives for the benefit of their members and other rural residents. This objective is accomplished through collecting statistics of farmer cooperatives and conducting a combination of research, analysis, technical assistance, and educational activities directed to:

1. Obtaining and summarizing accurate and timely statistics on the status, trends, and progress of agricultural cooperatives.

2. Providing current and objective analyses of public policy issues pertaining to cooperatives.

3. Developing methods of sound and equitable financing programs and policies including credit needs and equity redemption plans.

4. Identifying alternative organizational structures that can adjust to changing member needs and economic conditions.

5. Aiding boards of directors, managers, and other decision-makers effectively manage cooperative resources.

6. Evaluating and analyzing effective member relations and communications programs to improve member participation and responsibilities.

7. Establishing methods of operating efficient physical distribution systems encompassing the needs of farmer marketing, supply, and related service cooperatives.

ONGOING RESEARCH

Policy

- A legal treatise on farmer cooperative law.
- Internal legal/economic analysis.
- Cooperative definitions and national public policy.
- Guidelines for structuring successful joint ventures among agricultural cooperatives.
- Strategies of Michigan Farm Bureau Services Cooperative in reorganization.
- The status of an agricultural cooperative when a member goes bankrupt.
- Cooperative enterprise theory in the agricultural sector.
- Market performance in the California-Arizona citrus industry.
- Legal considerations in local cooperative mergers, reorganizations, and acquisitions.

Finance

- Annual financial profile of the largest farmer cooperatives.
- Nonqualified written notices of allocation.
- Equity capital acquisition and redemption strategies with equitable treatment.
- Development and analysis of cooperative financial performance measures.

- Financial futures and local cooperative finance.
- Leasing as an alternative method of financing cooperatives.
- Changing and implementing credit policies for supply cooperatives.
- A capital theory approach to the theory of agricultural cooperation.
- Analysis of methods for handling cooperative losses.
- Economic analysis of factors associated with financial success of farmer cooperatives.

Management and Operations

- Networking cooperative and member computers.
- Structuring cooperatives to improve performance.
- An investigation of cooperative member relations: implications for economic performance with an emphasis on the pooling activity.
- Determinants of goal selection among 60 agricultural cooperative leaders.
- Prototypic multicommodity cooperative integration in Vermont.
- Transportation and cooperatives.
- Member participation in farmer cooperatives.
- Kentucky farm women and agricultural cooperatives.
- Communications techniques of a major farm movement: a case study.
- Impact of dual agriculture on cooperatives.
- The effect of changes in farming patterns on cooperatives.
- Case study of membership structuring of Mid-American Dairymen.
- Potential impact of biotechnology on agricultural cooperatives.

Statistics and ADP

- Farmer cooperative statistics, numbers, memberships, sales, assets, and net margins.

PROPOSED RESEARCH

Policy	Legal and economic evaluation of cooperative bargaining.
Finance	Summary of trends in cooperative finance.
	Effects of financial stress on cooperatives.
	Alternative equity financing methods and ownership arrangements.
	Impact of tax laws and decisions on cooperatives and members.
	Development of a cooperative finance simulation model.
Management and Operations	Development of measures for evaluating cooperative management performance.
	A case study of California Canners and Growers.
	The extent and type of research conducted by cooperatives.
	Farm size attitudes towards cooperatives, and member participation.
	Techniques for assessing member needs.
	Techniques for member leadership identification in cooperatives.
	University-industry cooperative research centers: a practice manual for cooperatives.
	Assessing cooperative responsiveness to the changing structure of agriculture.
	Rail contract negotiations - terms and strategy for farmer cooperatives.
	The influence of change in agriculture on cooperative-member relations.
	Short line rail operation.
	Transportation law and farmer cooperatives.
	Competitive changes and their effect on the structure of cooperative organizations.
Statistics and ADP	Cooperative historical statistics, by States.

Cooperative Marketing and Purchasing Division

The following objectives guide and direct the research agenda for Cooperative Marketing and Purchasing Division:

1. Identification and evaluation of opportunities for cooperative participation in international trade by broadening the export information base for cooperative decision-makers, examining organizational alternatives for coordinating cooperative export programs, developing programs for identifying cooperative export strategies, facilitating interrelationships between cooperative exporters and importing countries, and identifying opportunities for reducing marketing costs.
2. Examination of cooperative pooling and pricing activities with respect to (a) establishing raw product values in the absence of an open market, (b) member equity problems arising from simultaneous operation of pooling and buy-sell programs, (c) maintaining a statistic inventory of cooperative pooling programs and their variations, and (d) alternatives for improving price discovery techniques, including teleauctions and computerized exchange mechanisms.
3. Evaluation of cooperative participation in government programs with examination of cooperative marketing options available to producers of commodities affected by alternative government program changes.
4. Examination of producer market access problems including examination of the changing composition of firms involved in agricultural marketing and processing and the impact that corporate firm exit, due to low relative returns to these activities has on farmer access to markets. Emphasis on cooperative alternatives for filling the voids left by firm exit in fruits and vegetables.
5. Examination of how farm supply cooperatives can react to rapidly changing situations of their supply procurement, manufacturing, and marketing systems. Of particular concern are adjustments in petroleum refining and distribution patterns, changing composition and industry structure of industry participants, and fertilizer marketing, manufacturing, and pricing practices.

ONGOING RESEARCH

Crops

- The future role of cooperatives in the apple industry.
- Financial profile of the largest first-handler grain cooperatives with sales of $5 to $14.9 million.
- Forecasting cooperative net revenues: an alternative approach for raw product pricing of processed fruits and vegetables.
- Pricing policy systems of grain marketing cooperatives.
- Vertical organization and economic performance in grain cooperatives.
- Involvement of cooperatives in tobacco marketing.

- An economic assessment of producer cotton marketing programs.
- Coordinating supply and demand by Hawaii's fruit and vegetable cooperatives.

Dairy, Livestock, and Poultry

- Analytical model of the cooperative dairy sector.
- Cost of processing fluid milk in cooperative plants.
- The impact of cooperative membership on the performance of dairy farms.
- The cost of manufacturing cheddar cheese under various technologies.
- The future role of live animal marketing cooperatives.
- Performance of dairy farms.

Farm Supplies

- Cooperative role in fertilizer manufacturing and marketing.
- Impact analysis model of the fertilizer industry.
- Role of cooperatives in agricultural chemicals.
- Supply operations of major regional cooperatives, 1985.
- Analysis of cooperative farm supply outlet consolidation.
- Local-regional cooperative relationships.

International Trade

- Potential for overseas marketing office for U.S. grain cooperatives.
- Cooperative trade information package.
- Analysis of the impact of pooling on the financial structure of regional marketing cooperatives with implications for export marketing.
- Potential for cooperative grain exports to developing market economies.

Special Topics

- Cooperative participation in government programs.
- Development of cooperative structure.
- Appropriate role for local cooperatives.
- The future of local farm supply/grain marketing cooperatives in the Cornbelt.

- Development of cooperative structure.
- Local cooperative competition (I).
- Performance of economic coordination functions by farmer cooperatives.
- Imperfect competition and producer cooperatives: the case of the West Alabama catfish industry.
- Local cooperative competition (II).

PROPOSED RESEARCH

Crops

- The role of cooperatives in the fruit, nut and vegetable subsectors.
- Operating problems of fruit and vegetable cooperatives.
- Cooperative marketing arrangements of dry beans and peas.
- Marketing and transportation of grain by local cooperatives.
- Role of cooperatives in rice marketing.
- The role of cooperatives in price discovery.
- Coordinated marketing for fruit and vegetable cooperatives.
- Value added concept effects on centralized and federated grain and farm supply cooperatives.
- Financial requirements and capital formation procedures of fruit and vegetable cooperatives

Dairy, Livestock, and Poultry

- Dairy cooperative operations in a market-oriented pricing environment.
- Alternative structures for large dairy cooperatives.
- Marketing operations of dairy cooperatives—data base development.
- The future role of artificial insemination cooperatives.

Farm Supplies

- Role of cooperatives in feed manufacturing.
- Servicing large and small farms: a study of equity issues.

International Trade

- Country market and product analysis for fruits, nuts, and vegetables.
- Alternate export marketing strategies.

- Costs of selected trade functions.
- Models of typical export companies.
- Exports by cooperatives.
- Protectionist policies and trade.
- Foreign sales corporations.
- Develop market research capabilities in foreign countries.

Cooperative Development Division

The following objectives guide and direct the research efforts of the Cooperative Development Division:

1. Examination of the problems and concerns of producers considering the cooperative as a business option and the unique problems of newly emerging cooperatives.

2. Identification of trends on new cooperative development including commodities involved, characteristics of producers, geographic areas, and organizational structures.

3. Creation of materials useful to managers and directors of emerging cooperatives to assist their decision-making processes.

4. Examination of the impact of new cooperatives on their production and marketing environment.

5. Development of standards, criteria, and analytical tools of feasibility analysis for evaluating proposed new cooperative organizations.

ONGOING RESEARCH

- Feasibility of a federation of vegetable cooperatives in the South.
- Expansion of microcomputer and other potential federation services for southern vegetable marketing cooperatives.
- An evaluation of the market potential and alternatives facing a new grape producer cooperative in New York.
- Factors critical for the success or failure of emerging agricultural cooperatives.

- Development and promotion of cooperative enterprises with recreation market potential.
- Key factors contributing to the success and failure of cooperatives serving limited resource farmers.

Proposed Research

- A system for evaluating the potential for new cooperatives.
- An assessment of awareness of ACS development programs among rural resource personnel.

TECHNICAL ASSISTANCE PLANS

The Agency's program of technical assistance to existing and newly emerging cooperatives is a function of the number and nature of requests for technical assistance. As such, specific projects, types of assistance, or volume of projects may not be estimated with a high degree of accuracy.

ACS will enter 1986 with 30 active technical assistance projects. Ten of these are led by CMPD and CMD, and 20 by CDD. Based on recent trends, between 30 and 50 new assistance requests are expected in 1986.

The Agency will continue to provide timely and professional technical assistance to cooperatives. Internal reviews and surveys of technical assistance recipients will continue to identify areas where changes or special attention could result in improved agency performance.

COOPERATIVE EDUCATION PLANS

A high-tech dimension will be added to cooperative education efforts beginning in 1986 through the funding of projects involving computer-assisted instruction and video programming. And, depending on funding levels, some user evaluation of educational materials will be conducted.

A continuing program will be maintained to create and provide printed educational materials and offer staff member assistance with and participation in cooperative education programs of cooperatives and educational institutions.

More than 60 titles of printed educational materials will continue to be reviewed to determine relevance and need for updating. Work will continue on completing a series of publications on various functional and commodity specific segments of farmer cooperatives in the United States. Four new sections are expected to be published. Other new educational materials will be developed whenever a void is identified or as a response to a specific issue.

Cooperatives, cooperative organizations, and educational and governmental institutions will be encouraged to develop cooperative training programs in areas or fields they do not presently cover. Types of training that will be promoted include university courses and research, youth and young farm couple programs, director and manager training, and vocational education programs.

Multi-state and regional education programs will be encouraged, both for national organizations and cooperating State or local organizations. Coordination of educational programs in this manner will increase the number of persons reached in the overall cooperative education process, while keeping down the costs to the recipients of training and the sponsoring institutions. ACS staff members will be encouraged to assist in all of these cooperative educational efforts.

APPENDIX I - ACS PERSONNEL

MANAGEMENT AND ADMINISTRATIVE STAFF

Randall E. Torgerson	Administrator
Jack H. Armstrong	Deputy Administrator
Donald W. Street	Assistant to the Administrator
Nancy L. Barnes	Administrative Officer
Sylvia Tyler	Administrative Clerk
Eileen Mero	Secretary
Florence Thompson	Secretary

COOPERATIVE MARKETING AND PURCHASING DIVISION

James E. Haskell	Director
Mary C. Hoke	Secretary
Patricia Randall	Secretary

Crops Program Area

Thomas H. Stafford	Agricultural Economist and Program Leader
Gilbert W. Biggs	Agricultural Economist
David Cummins	Agricultural Economist
Charles L. Hunley	Agricultural Economist
Francis P. Yager	Agricultural Economist

Dairy, Livestock, and Poultry Program Area

James B. Roof	Agricultural Economist and Program Leader
Julie A. Hogeland	Agricultural Economist
Kwang Siung C. Ling	Agricultural Economist

International Trade Program Area

Arvin R. Bunker	Agricultural Economist and Program Leader
Tracey Kennedy	Agricultural Economist
Bruce J. Reynolds	Agricultural Economist

Farm Supplies Program Area

John R. Dunn	Agricultural Economist and Program Leader
Lloyd Biser	Agricultural Economist
Donald L. Vogelsang	Agricultural Economist

COOPERATIVE MANAGEMENT DIVISION

Charles A. Kraenzle	Director
Loraine B. Hill	Secretary

Finance Program Area

Jeffrey S. Royer	Agricultural Economist and Program Leader
Donald R. Davidson	Agricultural Economist
Roger A. Wissman	Agricultural Economist
Greer Y. Ross	Secretary

Policy Program Area

James R. Baarda	Agricultural Economist and Program Leader
Donald A. Frederick	Attorney Advisor

Management and Operations Program Area

Bruce M. Swanson	Agricultural Economist and Program Leader
Thomas W. Gray	Rural Sociologist
Michael D. Kane	Agricultural Economist
Nellie Jones	Secretary

Statistics and Automated Data Processing

Ralph M. Richardson	Agricultural Statistician and Program Leader
Celestine C. Adams	Agricultural Statistician
Katherine C. DeVille	Statistical Assistant
Beverly L. Rotan	Economic Assistant
John W. Stutzman	Computer Systems Analyst

COOPERATIVE DEVELOPMENT DIVISION

John T. Haas	Director
Barbara M. Sullivan	Secretary

Field Operations and Training Program Area

Phillip F. Brown	Agricultural Economist and Program Leader
Patrick P. Boles	Agricultural Marketing Specialist
Gerald E. Ely	Agricultural Marketing Specialist
William R. Garland	Agricultural Marketing Specialist

Feasibility and Development Program Area

William R. Seymour	Agricultural Economist and Program Leader
James L. Goff	Agricultural Economist
Jan E. Halkett	Agricultural Marketing Specialist
Mary Anne Lambert	Agricultural Marketing Specialist
Edgar L. Lewis	Agricultural Economist
Willie Mae Thorpe	Secretary

INFORMATION AND EDUCATION STAFF

Gene Ingalsbe	Director
James E. Battle	Warehouseman
Patricia Burns	Computer Assistant
Deborah L. Cooper	Computer Assistant
Marjorie B. Christie	Editorial Assistant
Patrick M. Duffey	Public Affairs Specialist
Peter Manzelli	Visual Information Specialist
George Martin	Public Affairs Specialist
Deborah Thornsbury	Secretary

APPENDIX II - ACTIVE ACS TECHNICAL ASSISTANCE PROJECTS IN FY 1985

	Recipient Association	Project Description
	COOPERATIVE MARKETING AND PURCHASING DIVISION	
1.	Agri-Mark Lawrence, MA	Analyze and compare marketing costs of dairy plants.
	Associated Milk Producers, Inc. Midstate Region Schamburg, IL	
	Consolidated Badger Shauano, WI	
	Dairymen's Co-op Creamery Assoc. Tulare, CA	
	Dairymen, Inc. Louisville, KY	
	Independent Co-op Milk Producers (Kalamazoo Creamery Co.) Kalamazoo, MI	
	Inter-State Milk Producers Southampton, PA	
	Land O'Lakes Minneapolis, MN	
	Michigan Milk Producers Assn. Southfield, MI	
	Milk Marketing, Inc. (Dairy Farm Products, Co.) Orville, OH	
	Morning Glory Farms Shauano, WI	
	Wisconsin Dairies Baraboo, WI	
2.	Land O'Lakes, Inc. Minneapolis, MN	Assistance in foreign market development strategies for products and services.
3.	Finger Lakes Wine Council Waterloo, NY	Feasibility of a marketing and purchasing cooperative for Finger Lake area wineries.
4.	Jessup Farmers Co-op Jessup, IA	Merger feasibility study.

	Recipient Association	Project Description
	Dunkerton Co-op Elevator Dunkerton, IA	
5.	Agra Land, Inc. Lansing, MI	Assessment of cooperative's current market position with respect to farmers and supply dealers.
6.	Sooner Cooperative, Inc. Okeene, OK	Evaluation of operations and development of long-range strategies.
7.	National Council of Farmer Cooperatives Washington, DC	Evaluation of cooperative petroleum requirements.
8.	Georgia Sheep and Wool Growers Association Griffin, GA	Feasibility analysis of a sheep slaughter and packing operation.
9.	Osceola Products Company Osceola, AR	Cottonseed revenue and processing cost analysis.
	Helena Cotton Oil Company Helena, AR	
	Planters Cotton Oil Mill, Inc. Pine Bluff, AR	
	The Union Oil Mill, Inc. West Monroe, LA	
	Yazoo Valley-Minter City Oil Mill, Inc. Greenwood, MS	
	Delta Oil Mill, Inc. Jonestown, MS	
	Producers Cooperative Oil Mill Oklahoma City, OK	
	Plains Cooperative Oil Mill Lubbock, TX	
	Valley Co-op Mill Harlinger, TX	
	Ne-Tex Cooperative Oil Mill Wolfe City, TX	

	Recipient Association	Project Description
10.	Maui Vegetable Growers Assn. Kahului, HI Maui Farmers Co-op Exchange Wailuku, HI	Merger feasibility study.
11.	Capital District Co-operative, Inc. Albany, NY	Examine market, assess capital improvement needs, and evaluate new market potentials.
12.	Dairymen's Co-op Creamery Assn. Tulare, CA	Develop a system for allocating plant costs.
13.	Allen Dairy Products, Inc. Fort Wayne, IN	Analyze membership strength, financial status, plant output efficiency.
14.	American Farm Bureau Fed. Park Ridge, IL	Design and analyze a producer survey on cooperative livestock marketing programs in the Midwest.
15.	V.T. Smith Dairy Producers DuBois, PA	Find method of salvaging dairy bottling plant and preserving market for current milk production.
16.	National Council of Farmer Cooperatives Washington, DC	Procurement of sales and source data for regional cooperative oil sellers during 1979-80.

COOPERATIVE MANAGEMENT DIVISION

1.	Hardwick Farmers Cooperative Exchange Hardwick, MA	Assistance in evaluating current marketing and financial problems.
2.	Agri Industries Des Moines, IA	Development and implementation of a transportation clearinghouse system.
3.	National Conference of State Cooperative Councils Washington, DC	Examination of dues structures and other sources of income of state cooperative councils.
4.	American Institute of Cooperation Washington, DC	Analysis of educational needs survey.

	Recipient Association	Project Description
	COOPERATIVE DEVELOPMENT DIVISION	
1.	Pueblo Farms Association Salinas, CA	Feasibility of a strawberry freezing operation.
2.	Watermark Assoc. of Artisians Elizabeth City, NC	Assistance in developing a viable craft marketing business through director and management training.
3.	Mammoth Cave Vegetable Growers Cooperative Brownsville, KY	Assistance in financial planning and director and manager training.
4.	Hawaii Livestock Cooperative Honolulu, HI	Feasibility analysis for a pork slaughter facility.
5.	Southwestern North Carolina Farmers Cooperative Murphy, NC	Development of long-term management and financial plans, and director and employee training.
6.	Virginia-Carolina Peanut Farmers Cooperative Assn. Franklin, VA	Feasibility analysis of a peanut shelling operation.
7.	Highland Rim Veg. Growers, Assn. Oliva, TN	Feasibility of a fresh vegetable packing and marketing operation.
8.	Horticultural Producers Federated Association Monticello, KY	Assistance in developing a federation of fresh vegetable marketing cooperatives.
9.	Summer Sweet Vegetable Growers Port Jervis, NY	Feasibility of a vegetable cooperative.
10.	Kahua Beef Sales, Inc. Honolulu, HI	Feasibility analysis of converting current operations to a farmer-owned cooperative.
11.	Tri-State Growers Cooperative Tazewell, TN	Business plan implementation assistance.
12.	Southwest Wisconsin Trout Growers Viola, WI	Feasibility analysis of a trout marketing cooperative.

	Recipient Association	Project Description
13.	Lauderdale County Produce Growers Association Ripley, TN	Development of long-term management and financial plans and director and employee training.
14.	Southside Virginia Produce Cooperative Halifax, VA	Assistance in management training and development of operating plans for 1984-85.
15.	Hawaii Ginger Commodity Group Association Hilo, HI	Assistance in establishing a ginger growers' bargaining cooperative.
16.	Southeast Tennessee Fruit and Vegetable Group Pikeville, TN	Feasibility analysis of a packing and marketing cooperative for fresh fruits and vegetables.
17.	Yankton Sioux Indian Reservation Crafts Wagner, SD	Feasibility analysis of a craft marketing cooperative.
18.	Coup Marks Craft Cooperative Ronan, MT	Assistance in developing cooperative records and operating structure.
19.	Metcalfe County Crafts Group Edmonton, KY	Feasibility analysis of a craft cooperative.
20.	Albemarle Cooperative Association Edenton, NC	Board and manager training and assistance with long-range plans.
21.	Southeastern Virginia Vegetable Growers Association Waverly, VA	Organizational and operating assistance for a small fresh vegetable marketing cooperative.
22.	Southwest Alabama Catfish Feed Cooperative Boligee, AL	Feasibility analysis of a feed supply cooperative for catfish producers.
23.	Virginia Wine Cooperative Steering Committee Edinburg, VA	Feasibility analysis of a cooperative winery.
24.	TriCounty Alfalfa Cooperative Union City, TN	Feasibility analysis of an alfalfa pelleting and hay marketing cooperative.

	Recipient Association	Project Description
25.	Hikiola Supply Cooperative Molokai, HI	Assistance in improving supply operations and analysis of feasibility of vegetable packing services.
26.	Somerset Produce Growers Association, Inc. Princess Anne, MD	Feasibility of a fresh fruit and vegetable marketing cooperative.
27.	New York Grape Country Cooperative Pulteney, NY	Feasibility of cooperative marketing alternatives for grapes.
28.	Southwest Virginia Vegetable Growers Association Marion, VA	Assistance in development of a long-range plan.
29.	Apple Cooperative, Inc. Edneyville, NC	Feasibility of a fresh apple processing and cold storage facility.
30.	Missouriana H.A.N.D. Columbia, MO	Planning assistance and establishment of goals and directions.
31.	Shinnecock Fisherman's Cooperative Association East Quogue, NY	Analysis of cooperative marketing alternatives.
32.	Jackson County Farmers Sylva, NC	Feasibility analysis of a multi-commodity marketing cooperative.
33.	Eastern Long Island Trawlers Cooperative Montauk, NY	Feasibility study of a fish processing and marketing cooperative.
34.	Ramah Navajo Community Weavers Pine Hill, NM	Assistance in establishing a marketing cooperative for woven wool rugs.
35.	Ripley Vegetable Growers Ripley, WV	Feasibility analysis of a vegetable packing and marketing cooperative.
36.	Virginia Mushroom Growers Group Madison, VA	Assistance in developing a shiitake mushroom marketing cooperative.
37.	Mississippi Grape Growers Port Gibson, MS	Feasibility analysis of a fresh grape processing and marketing cooperative.
38.	Hawaii Flora Products Cooperative Honolulu, HI	Feasibility analysis of a statewide flower marketing cooperative.

	Recipient Association	Project Description
39.	Snow Country Cooperative Hancock, MI	Assistance in developing a financing package for purchase of vegetable packing facilities.
40.	Beef Retailing Cooperative Group Bancroft, WI	Feasibility analysis of a nationwide cooperative beef retailing system.
41.	Vegetable Cooling Cooperative Molokai, HI	Financial projections and organization assistance for a vegetable cooling cooperative.
42.	Kentucky Mountain Farmers Cooperative Beattyville, KY	Assistance in developing viable vegetable marketing operations

APPENDIX III - AGENCY PUBLICATIONS

Research Reports

Working Arrangements of Fruit and Vegetable Processing Cooperatives. RR 36. Martin A. Blum.

Growth and Trends in Cooperative Operations, 1951-81. RR 37. Lloyd C. Biser and Lyden O'Day.

Cooperatives' Position in the Potato Industry. RR 39. Gilbert W. Biggs.

Cooperative Wool Marketing Pools and Warehouses: Industry Update, Issues, and Options. RR 41. Julie A. Hogeland and Phillip W. Scronce.

Merging Cooperatives: Planning, Negotiating, Implementing. RR 43. Bruce L. Swanson.

Fishery Cooperatives. RR 44. William R. Garland and Phillip F. Brown.

Estimating Production of Forestry Cooperative Members. RR 45. Benjamin F. Hoffman, Jr.

Petroleum Farmer Cooperatives, 1982. RR 46. E. Eldon Eversull and John R. Dunn.

Marketing and Transportation of Grain by Local Cooperatives. RR 47. Charles L. Hunley.

Young Member Programs for Cooperatives. RR 48. Thomas F. Schomisch and Thomas W. Gray.

Financial Performance of Dairy Cooperatives. RR 49. Thomas H. Stafford.

Farm Supply Cooperatives: Structure, Operations and Growth in the Mid-South. RR 50. Lloyd C. Biser.

A Reserve-Balancing Pool for Services by Dairy Cooperatives. RR 51. K. Charles Ling.

Revisions and Reprints

Tax Treatment of Cooperatives. CIR 23.

Cooperative Facts. CIR 2.

What Are Patronage Refunds? CIR 9.

Top 100 FC.

Cooperative Approach to Crafts. CIR 33.

What Co-op Directors Do. CIR 14.

Cooperative Wool Marketing Pools and Warehouses. RR 41.

Farmer Cooperative Publications. CIR 4.

Cooperative Brands of Processed Foods. SR 14.

Is There a Co-op in Your Future? CIR 10.

Staff Reports

Agricultural Financing Practices: Selected Topics. Roger A. Wissman.

Federal Statutes Specifically Referring to Agricultural Cooperatives. Donald A. Frederick.

State Security Law Exemptions for Farmer Cooperatives. James R. Baarda.

NCR-140 Research on Cooperatives (Proceedings).

Starting a Fruit and Vegetable Marketing Cooperative. William R. Seymour.

29th Bargaining Proceedings. Patrick M. Duffey and Gene Ingalsbe.

Cooperative Information Reports

Poultry and Egg Cooperatives. CIR 1, Sec. 17. J. Warren Mather and Edwin E. Drewniak.

Director Liability in Agricultural Cooperatives. CIR 34. Douglas Fee, Allen C. Hoberg, and Linda Grim McCormick.

Farmer Cooperative Statistics, 1983. CIR 1, Sec. 27. Ralph M. Richardson, Celestine C. Adams, Katherine C. DeVille, Frances E. Mahan, Elizabeth J. Simmons, and John W. Stutzman.

Cooperative Petroleum Operations. CIR 1, Sec. 23. J. Warren Mather and E. Eldon Eversull.

Cotton Cooperatives. CIR 1, Sec. 18. Bruce J. Reynolds.

Understanding Capper-Volstead. CIR 35. David Volkin.

Service Reports

American Cooperative Exporters: Dairy, Livestock, and Poultry Products. SR 12. Tracey L. Kennedy and Arvin R. Bunker.

Technical Assistance Reports

Craft Producers Survey, Metcalfe County, KY. Mary Anne Lambert.

Alternative Organizational/Operational Plans for a Vegetable Marketing Cooperative in Southeast Oklahoma. John T. Haas.

Kahua Beef Cooperative Capital Requirements. Phillip F. Brown and Jeffrey S. Royer.

Fruit and Vegetable Cooperative on Maryland's Eastern Shore: Producer Survey Analysis. Jan Halkett and Dick Seymour.

Finger Lakes Grape Marketing Cooperative—Growers Survey Results. Edgar L. Lewis

Hawaii Ginger Commodity Group Association: Projected Operations, 1985-87. Rick Garland.

Evaluation of Short-Term Solutions to New York's Grape Growers' Marketing Problems. Edgar L. Lewis.

Producer Survey Results: Virginia Winery Cooperative. James L. Goff.

Feasibility of Constructing a Warehouse for Blue Ridge Hearthside Crafts Association. Jan E. Halkett and Mary Anne Lambert.

West Virginia Vegetable Marketing Cooperative: Producers Survey Analysis. Mary Anne Lambert.

COOPERATIVES ARE IMPORTANT TO AGRICULTURE

A Review of the Agricultural Cooperative
Service of the U.S. Department of Agriculture,
with Recommendations

ACS REVIEW

In early 1984, cooperative leaders proposed that a study of the Agricultural Cooperative Service be conducted to review the work of the agency and make recommendations for its future. Consequently, the National Council of Farmer Cooperatives and National Milk Producers Federation jointly invited a representative group of cooperative leaders to serve on a Review Committee.

The Review Committee held a series of meetings in the fall of 1984 including a hearing and additional sessions with ACS staff. This report describes the findings of the ACS review.

Those participating on the Review Committee were:

Joe Coffey, Southern States (Chairman)

Paul Brower, Gold Kist, Inc.
Nancy Kantola, Kansas Cooperative Council
Vern Moore, Land O'Lakes, Inc.
Bill Pettit, Central Bank for Cooperatives
Carl Zurborg, Swiss Valley Farms

I. Executive Summary and Recommendations

1. Recommendation: The Agricultural Cooperative Service should be maintained as a separate agency within the U.S. Department of Agriculture. (See pages 9-12)

2. Recommendation: The mission of the Agricultural Cooperative Service is: "To improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective agricultural cooperative institutions." In addressing this mission, the agency must focus on emerging issues and trends that affect agricultural cooperatives and identify means of capitalizing upon the changes or ways in which their adverse impacts will be lessened. (See pages 13-14)

3. Recommendation: The Review Committee has defined three basic areas of activity for the Agricultural Cooperative Service. They are: (1) Research, analysis and statistical information; (2) Cooperative education, information and history; and (3) Technical assistance.

The research focus should be on issues having primary relevance and the broadest possible application to agricultural cooperatives.

The education function should be aimed at meeting specific cooperative information needs and broadening knowledge of cooperative principles among farmers, government, and the general public. More emphasis should be placed on cooperative history as a means of understanding how cooperatives may be organized successfully and why cooperatives are important to agriculture and the public.

The technical assistance effort should address both new cooperative development in areas of specific need, and ongoing advice to existing cooperatives on restructuring, capital development, and other basic questions. (See pages 14-18)

4. Recommendation: The resources of the Agricultural Cooperative Service should be organized and employed in a manner that will allow the greatest possible outreach and leveraging of available resources. ACS should serve as a stimulator of efforts of other government agencies, land grant universities, state cooperative councils, cooperative trade associations, and operating cooperatives themselves. Avoiding duplication of effort and achieving maximum results must be the criteria for the development of ACS limited resources. (See pages 18-20)

5. Recommendation: As a means of providing an ongoing assessment of the needs of the agency and to provide guidance in terms of emerging issues, a representative group of agricultural cooperative leaders should meet regularly to review the programs and needs of the Agricultural Cooperative Service. This would be an informal process conducted by organizations representing agricultural cooperatives. (See pages 20-21)

6. Recommendation: Consistent with the Office of Personnel Management requirements, ACS should be organized with three operating divisions along functional lines: (1) Research, analysis and statistical information; (2) Cooperative education, history and (3) Technical assistance. This is not seen as a rigid compartmentalization of duties or tasks. In performing research and technical assistance, a task force approach is recommended.

Increased research emphasis is recommended in the area of public policy as it impacts cooperatives. The Department of Agriculture and other government agencies need to be made aware of the impact that various policy decisions may have on cooperatives. Development of a "cooperative impact statement" could address this need.

More needs to be done to make the cooperative community aware of information available through the agency.

The provision of technical assistance is an ongoing need. More can and should be done to involve the Extension Service in this work. The use of resources in field offices should be carefully evaluated. (See pages 21-24)

7. Recommendation: If a user fee plan is implemented, it should be constructed so that those with ability to pay for technical assistance which is specific and limited in application would bear the cost of the service. With respect to publications, one free subscription to the monthly magazine, *Farmer Cooperatives*, should be available to all cooperatives with additional subscriptions on a fee basis. For other ACS publications, one free information copy should be made available, with a charge for additional copies consistent with other USDA agencies. (See pages 25-26)

II. Background Information

Cooperatives Are Important to Agriculture

The cooperative enterprise has been a major feature of American agriculture throughout our history. Agricultural cooperatives represent the joint efforts of producers to assure availability of markets, inputs, and services. Cooperative marketing associations are the essential means by which farmers gain equitable access to the marketplace. The driving force behind creation of cooperatives has been varied. In some cases cooperatives may represent the most expeditious means of accomplishing a necessary task. Often cooperatives have represented a means of providing countervailing forces in the markets on which producers rely. Cooperatives, created by farmers, have essentially been the result of the producer's need for particular products or services.

Cooperatives are self-help efforts intended to address the needs of their membership for goods or services. The widespread use of cooperatives in agriculture is in response to farmers' need for services that would not, or could not, be made available to rural communities. Cooperatives also provide expanded competition in markets for farmers' products and inputs needed for agricultural production.

The self-help nature of cooperatives is particularly significant at the present time when agriculture faces an economic crisis, and there are limited resources for direct governmental assistance to agriculture. Farmers faced with a combination of depressed product prices and rising production costs look to their cooperatives for the best possible return on their products, and for competitively-priced farm inputs. The cooperative enterprise represents an off-farm extension of the farm business.

In 1983, cooperative marketing associations provided markets for commodities valued at more than $49 billion or about one-third of products marketed. Farmers purchased almost $16 billion or 20% of their inputs from their supply cooperatives. In addition, trucking, ginning, storage and other services valued at almost $1.5 billion were provided by farmer cooperatives during 1983.

About 71 percent of farmers are members of at least one cooperative. In total, some 5,985 cooperatively-owned businesses operated on behalf of their farmer-owners in marketing their production, meeting their need for fuel, fertilizer, seed and other inputs and providing essential farm services in 1983. This does not include the activities of the cooperatively owned Farm Credit System, or the operations of rural electric cooperatives, rural telephone cooperatives or rural water systems.

Cooperatives Meet Changing Needs

The cooperative of the 1980's is a vastly different organization than its predecessor of the post World War II era. As technology has transformed American agriculture and its markets, the same factors have shaped the development and growth of cooperatives. An increasingly sophisticated farmer places greater demands on his cooperative. Broadening the marketplace from local to regional, national and international has required a change in marketing strategy, broader knowledge of markets, financing, transportation and a myriad of other factors.

Public awareness of cooperatives and their role in American agriculture appears quite limited or distorted in view of the vital role they play. For example, attention is often drawn to the "billion dollar cooperative", leaving the impression that this is the standard. Yet, of the nearly 6,000 farmer cooperatives doing business in 1983, only 13 had a dollar volume of $1 billion or more. Typically, the farmer cooperative is a relatively small organization. More than 90 percent of cooperatives operating in 1983 had and annual business volume of less than $15 million. Membership averaged 827 per cooperative association.

The cooperative is distinct from other types of business organizations because of:

1. Operations at cost. Savings are distributed or allocated in direct proportion to the patronage of each member.
2. Democratic control by the membership.
3. Limited returns on capital.

These factors clearly establish the cooperative as a self-help effort by which the farmer addresses economic and other needs faced in marketing his production, acquiring his farm inputs, and assuring credit and other essential farm services.

Assisting agricultural cooperatives is of benefit to the general public. The public benefits when farmers use cooperatives to improve marketing efficiencies and thereby maintain an abundant and wholesome supply of food and fiber.

At a time when Government policy is trending away from direct price and income support, USDA should help farmers achieve improved incomes and market access by placing a stronger emphasis on their cooperatives. Farmers can use cooperative action to improve their marketing system, develop new products and markets, and continue to lower their production costs.

ACS can use its national vantage point to assess needed changes in the cooperative system. These adjustments could include further coordination of efforts to achieve sufficient scale of operation, assume additional marketing functions, and carry out expanded educational and training programs.

Historic Legislative Recognition of Cooperatives

As an element of its policy of maintaining a strong and viable agriculture, the Federal government has long recognized the need to assist and encourage farmers and their cooperatives. The legal basis for joint marketing efforts by farmers was established in the Capper-Volstead Act of 1922. The Cooperative Marketing Act of 1926 directed the Secretary of Agriculture to "render service to associations of producers of agricultural products..."

The latter statute formalized policies USDA had pursued since early in this century. The result was the creation of the Division of Cooperative Marketing in the USDA Bureau of Agricultural Economics in 1926. This activity exists today as the Agricultural Cooperative Service of the U.S. Department of Agriculture.

Cooperative Marketing Act of 1926

As approved by Congress, the Cooperative Marketing Act of 1926 represented a combination of directive and authorization. The Secretary of Agriculture was directed to establish a division of cooperative marketing to "render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities."

In carrying out this directive, a number of specific activities were authorized: (1) The collection, analysis, and dissemination of economic, statistical and historical information regarding the status and operations of cooperatives in this country and abroad; (2) The conduct of research on the economic, legal, financial, social and other phases of cooperatives, and publication of the results; (3) The conduct of surveys and analyses, if deemed desirable, of the operations of representative cooperatives at their request; (4) To advise groups of producers, if deemed advisable, that may desire to form a cooperative association; (5) To collect from all available sources information concerning crop prospects, supply, demand, current receipts, exports, imports and prices of agricultural products handled or marketed by cooperative associations; (6) To promote the knowledge of cooperative principles and practices; and (7) To make special studies in this country and abroad and disseminate such information as may be useful in the development and practice of cooperation.

Subsequent legislation reassigned the collection of crop supply and demand data spelled out in item five (5) to other agencies of the Department. With this exception, the seven basic authorities spelled out in 1926 remain in force today.

A strong case can be made for effective activity in each of the six remaining authorized areas of work. The growing complexity of markets in which cooperatives operate make it imperative that policy and management decisions be based on the best possible knowledge. The growth of cooperative organizations as they seek to be effective on behalf of their membership demands increased capital and improved management and communication within the organization. An understanding of the basic principles of cooperation, and the meshing of these principles with modern business practice is paramount. Assistance to producers in organizating new associations, or in restructuring existing associations to become more effective, is an ongoing need. In all of this, we must be aware of what is being done outside the United States, and the opportunities that exist to learn from the experience of others.

Each of these are tasks that must be accomplished. Others could be added to the list. In an era of limited government resources, the question is how best to organize and direct the available resources so as to most effectively meet the greatest need.

ACS Review Committee

Over the years, several in-depth reviews have been made of ACS and its predecessor agencies. In view of the budget and personnel limitations faced over the past several years, cooperative leaders proposed in early 1984 that such a study would be helpful.

Consequently, the National Council of Farmer Cooperatives and the National Milk Producers Federation jointly invited a representative group of cooperative leaders to serve on the Review Committee. The panel was charged with evaluating the services currently provided the nation's farmer cooperatives, including an assessment of the relative need for these services. The objective was to assist ACS in maintaining an effective level of assistance to cooperatives, and to help it and USDA leadership in setting priorities for agency activities.

During the review, specific attention was directed toward four primary areas of activity: (1) cooperative research and development; (2) technical assistance; (3) statistical and educational information; and (4) government policy analysis.

III. ACS Review Committee Report and Recommendations

Agency Status for the ACS

A major question regarding ACS and its predecessors has been its existence as a separate agency of USDA. During 1977-1980, the Farmer Cooperative Service was combined with the Economic Research Service and the Statistical Reporting Service, becoming a unit of USDA's Economics, Statistics and Cooperatives Services (ESCS).

At the time, concerned cooperative leaders were assured that agency consolidation would not lessen the visibility of what became the cooperative unit, nor would it downgrade the commitment of the Department to addressing cooperative needs. While strong efforts were made to meet these commitments, the lack of participation in policy staff sessions by the administrator (then deputy administrator of ESCS), the consignment of budget development and consideration to a larger agency, decreased visibility before Congress, and differences in objectives and focus with the other two units, resulted in strong pressures for reestablishing a separate agency devoted to cooperatives. This was accomplished through establishment of the Agricultural Cooperative Serviceas a separate agency reporting to the Assistant Secretary for Marketing and Inspection services.

A small agency suffers some disadvantage with respect to recognition of resource needs. Also a disproportionate amount of available resources may be devoted to housekeeping functions. However, the track record demonstrates that consolidation of ACS with Economics and Statistics was simply unworkable and counter-productive in terms of meeting its legislative mandates.

Maintain Separate Agency Status

In view of the advantages and disadvantages of agency status, the Review Committee very strongly recommends maintaining separate agency status. It recognizes that some administrative functions for ACS and other small agencies under the Assistant Secretary for Marketing and Inspection Services have been consolidated. This has helped address at least one of the primary drawbacks of a small agency. Further effort in this regard might be explored. Already a number of these savings have been achieved by consolidating these with APHIS.

One reason ACS should be maintained as a distinct part of USDA is because cooperatives are a major part of U.S. agriculture. In fact, cooperatives are an integral part of the economic infrastructure of American agriculture today. More than 70 percent of the nation's commercial farmers are members or users of at least one agricultural cooperative. Farmers market 40 percent of the nation's grain and oilseed production through their cooperatives. Over 70 percent of the milk and milk products produced in the country are marketed through cooperative associations. One-quarter of the fruit and vegetable production moves to market through cooperatives. Producers of wool and mohair, nuts, sugar and poultry are major users of cooperatives as the marketer of their production.

Cooperatives are also a primary source of farm inputs. In 1983, farm supplies valued at $16 billion were sold by agricultural cooperatives. Petroleum products, feed and fertilizer led the list of items purchased. Agricultural chemicals, building materials, machinery and equipment and seed were among other major inputs farmers acquired through their cooperatives.

A growing segment of cooperative business includes services related to farm operation or marketing such as trucking, cotton ginning, storage and feed preparation. In 1983, cooperative activities in these areas added almost $1.5 billion to business volume. In total, farmer cooperatives had a business volume of $66.7 billion in 1983.

But business volume does not, by itself, fully reflect the cooperatives significance and contribution to the rural or national economy. They have assisted their farmer-owners, and all farmers, in holding the line on production costs by increasing competition in markets for production inputs. They have increased farmers returns through increased competition in the markets into which his produce is sold. They have benefited consumers through increased competition in food markets, and improved efficiencies through the presence of cooperative marketing efforts.

In view of the central role of agricultural cooperatives in the economy, USDA would not be as effective in reaching its assigned responsibilities without an agency which fosters self-help among farmers and represents the interests of cooperatives and their farmer-owners.

Additionally, there are direct and obvious benefits flowing from agency status. As a distinct organization, ACS is brought to the direct attention the appropriate congressional committees when considering budget and appropriations matters. Lacking agency status, this consideration would be overshadowed or become lost in reviewing the needs of a larger, composite agency.

With agency status, the administrator is a direct participant in policy conferences. Thus he has direct access to the responsible Assistant Secretary. This provides an opportunity to make agency needs known directly. More importantly, it affords an opportunity to have input on possible policy alternatives affecting cooperative operations.

With agency status, the work performed has a bigher level of visibility and it is also easier to assign accountability for ACS work quality and performance.

Recommendation: The Agricultural Cooperative Service should be maintained as a separate agency within the U.S. Department of Agriculture.

The Role of the ACS

Broadly stated, the basic role of the Agricultural Cooperative Service is to improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective agricultural cooperatives.

This is the same purpose defined in an earlier (1980) study on ACS activities. It is also consistent with the directives and authorities of the Marketing Act of 1926.

In carrying out this role, ACS and those relying on its work must be cognizant of changing attitudes or needs in two critical areas:

(1) Changes in attitudes on the part of USDA leadership toward ACS or toward cooperatives and their role in the agricultural economy.

(2) Changes within the cooperative community and cooperative organizations which affect their view of ACS and the demands placed on it.

It is essential that USDA leadership and the Office of Management and Budget have a clear understanding of ACS's mission. Proposed budget and personnel cuts compared with related USDA agencies, strongly suggest a lack of understanding of the agency's role within the USDA structure (see tables 1 and 2). This signals the need for stronger, more effective communication of cooperative needs to Departmental leadership. ACS leadership is responsible for working within the framework of Department policy-making to accomplish this purpose. In addition, the cooperative community needs to more effectively communicate these needs to all levels of leadership within USDA.

The stated role of ACS is broad and general. It is purposely so in order to allow the agency to effectively respond to the changing needs of cooperatives and their members. The rapid changes taking place in cooperatives including increased membership and business volume, broader markets, and increasingly sophisticated operations, alter demands made on the agency's resources. Further, the severe economic climate faced by many farmers and ranchers is reflected in the demands placed on their cooperatives. ACS leadership must be aware of these trends and changes and adapt the agency's work to address emerging needs.

By focusing resources on emerging issues, the attention of the responsible USDA officials can be drawn to questions early in the policy development process. Similarly, research and technical assistance devoted to early identification of cooperatives needs can be more productive in terms of assisting cooperatives and their members in avoiding problems or capitalizing on opportunities.

2. Recommendation: The mission of the Agricultural Cooperative Service is: "To improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective agricultural cooperative institutions." In addressing this mission, the agency must focus on emerging issues and trends that affect agricultural cooperatives and identify means of capitalizing upon the changes or ways in which their adverse impacts will be lessened.

Functions of the ACS

What functions or activities are required for ACS to carry out its role? The Cooperative Marketing Act of 1926 authorizes activities in six specific areas. In reviewing current ACS activities, and in light of available resources and agricultural cooperative needs the Review Committee feels that three basic areas of activity can be defined:

(1) Research, analysis and statistical information;
(2) Cooperative education, information and history; and
(3) Technical assistance.

ACS staff ~~is a~~ resource to be organized and used in a manner that will address these needs to the fullest possible extent. Focus of the work, particularly in the research and technical assistance areas, should be on issues that have the broadest possible application to farmer cooperatives. In many instances, it appears desirable ACS play the role of a catalyst to broaden its impact. More will be said on this.

In addressing the question of research, analysis and statistical information, focus must be on issues that have primary relevance to cooperatives. Further, the scope of the work must be considered. In making a choice between a number of potential research projects, the decision must be made on which has the greatest potential impact for all cooperatives. No attempt was made to develop an exhaustive list of areas requiring research attention. A number of problems demanding study, however, include cooperative organization and structure, cooperative finance, impact of public policy on cooperatives, cooperative communications, and other issues relating to the ability of cooperatives to respond to the needs of their members.

This is often referred to as the "Information Age". On the one hand, policy makers, entrepreneurs and others responsible for decision making rely on and require current and reliable information regarding market trends, impact of organizational change on business performance, and probable reaction to a given course of action. At the same time, there are many competing voices in the "information market". With respect to cooperatives, decision makers draw on a number of sources for their information. But there is a strong and continuing need for cooperative-specific information -- a need that can only be filled by the Agricultural Cooperative Service.

The educational aspect of this function must be viewed as applying broadly to farmers -- users and potential users of cooperatives -- government and the general public. These efforts must broaden the knowledge about cooperatives -- what they are, what they do, and how they do it.

The cooperative movement is dynamic. In this sense, it is important to understand the basis of its development, the underlying reasons for growth and change and the benefits or pitfalls of shifts that have occurred. Cooperative history is also useful in understanding the basic need for cooperatives to exist, and the harmful consequences in earlier times when there were no cooperatives to provide services or countervailing forces in farmers' markets. ACS is positioned to provide this historical perspective of cooperatives as part of its operation, as well as exercising leadership in pointing future directions for cooperative enterprise.

There has been a tendency for people outside the cooperative community to view ACS's technical assistance operation as being devoted to the development of new cooperatives. Consequently, the argument has been made that the need for this work has passed. This is not true. There are instances where development of new cooperatives can address farmer's needs. More to the point, the technical assistance effort is and must be much broader than cooperative organization and development.

For example, one recent success story of cooperative development involves a cotton cooperative in North Carolina. Farmers in the eastern part of the state wanted to grow cotton in rotation with peanuts, but were prevented by a lack of ginning facilities within reasonable distance. Following ACS' feasibility study and business plan development, a ginning cooperative was formed and began operating in the fall of 1980. The cooperative has successfully provided needed ginning services to its 115 members and the availability of its services has resulted in expansion of area cotton production from 600 acres in 1980 to 12,000 acres in 1984. The cooperative more than doubled its capacity in 1984, and plans to build 2 additional gins by 1989. It is estimated that area farmers have boosted their income by $1 million a year through this enterprise.

Within the framework of existing cooperatives, the need for advice on restructuring, capital development and other basic questions is ongoing. The need to assure availability of essential services to farmers, the introduction of new crops, and the opening of new marketing possibilities all raise questions with producers regarding the potential for cooperative action to meet a need that did not exist before or was met on some other basis.

3. Recommendation: The Review Committee has defined three basic areas of activity for the Agricultural Cooperative Service. They are: (1) Research, analysis and statistical information; (2) Cooperative education, information and history; and (3) Technical assistance.

The research focus should be on issues having primary relevance and the broadest possible application to agricultural cooperatives.

The education function should be aimed at meeting specific cooperative information needs and broadening knowledge of cooperative principles among farmers, government, and the general public. More emphasis should be placed on cooperative history as a means of understanding how cooperatives may be organized successfully and why cooperatives are important to agriculture and the public.

The technical assistance effort should address both new cooperative development in areas of specific need, and ongoing advice to existing cooperatives on restructuring, capital development, and other basic questions.

ACS's Role as a Stimulator

The Review Committee feels that every possible effort must be made to broaden ACS's reach and impact. Resources available at any given time must be organized in such a way that they can capitalize on opportunities to generate activities by others which are beneficial and necessary to cooperatives. In a sense, this is seeking to leverage the resources of the agency through outreach or stimulation of other efforts.

The broad role assigned ACS, "To improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective cooperative institutions" is complementary to the mission of other USDA agencies and the Land Grant University System. It is very closely attuned to the mission of cooperative trade associations and operating cooperatives.

There should, at all times, be the closest possible cooperation with other USDA agencies and other elements of the Executive branch. The fullest possible use should be made of information and data available from other agencies. Where possible, ACS should seek to have questions affecting cooperatives addressed as part of the work performed by such agencies.

This strengthening of ties with other agencies does not imply a reduction of the need for ACS's work. In fact, success achieved in this direction would broaden ACS's impact through increased awareness of cooperatives, their functions, and their needs. It must also be recognized that there are specific areas of research, data collection, information and education that pertain uniquely to cooperatives and that must be performed by the Agricultural Cooperative Service. Expanded coordination of effort and avoidance of duplication, however, are objectives that must be pursued.

The Land Grant University System which includes teaching, research and extension functions offers another source of close cooperation. It is uniquely equipped to address problems of a local or regional nature. Cooperative research agreements and joint effort in cooperative development and technical assistance could broaden ACS's impact in this area.

As an example of resources available, several states have undertaken initiatives to encourage and develop additional funding for cooperative research and study at the Land-Grant Universities. Wisconsin and Texas have had such programs for years.

The State of Missouri is working to endow the "Robert Partridge" Cooperative Chair at the Department of Economics, University of Missouri. The Chair is named in honor of the recently retired, long-time executive of the National Rural Electric Cooperative Association. Kansas is proposing something even broader: the Arthur Capper Cooperative Center. Named for the co-author of the Capper-Volstead Act, the center would be established at Kansas State University and would include many people of various specialties in cooperative research and education.

The State Cooperative Councils, cooperative trade associations and operating cooperatives offer additional opportunities that should be exploited to the fullest.

State efforts can be promoted and encouraged by ACS. Much of this is done at the present time. The agency can serve as a focal point for stimulating additional efforts. Broadening these opportunities will require efforts outside the scope of ACS itself. In the case of inter-agency cooperation, there must be a conscious effort within USDA, beginning with the Secretary, to bring this about. The cooperative community can, and should, be more active in this respect.

4. Recommendation: The resources of the Agricultural Cooperative Service should be organized and employed in a manner that will allow the greatest possible outreach and leveraging of available resources. ACS should serve as a stimulator of efforts of other government agencies, land grant universities, state cooperative councils, cooperative trade associations, and operating cooperatives themselves. Avoiding duplication of effort and achieving maximum results must be the criteria for the deployment of ACS's limited resources.

ACS' Keeping Abreast of Changing Needs

ACS must be responsive to the changing needs of cooperatives, and support from USDA leadership is essential so that ACS may meet these needs. Agricultural cooperatives need to be familiar with ACS programs both to maximize their benefit and to create grass-roots support for ACS. These objectives could be advanced by creation of an informal advisory committee.

We propose the regular convening of a representative group of agricultural cooperative leaders to assess the programs and needs of the Agricultural Cooperative Service. This should be done informally under the auspices of the organizations representing agricultural cooperatives. It can serve a dual purpose of assisting ACS in determining current needs and goals,, and communicating ACS's needs and potential to their membership.

5. Recommendation: As a means of providing an ongoing assessment of the needs of the agency and to provide guidance in terms of emerging issues, a representative group of agricultural cooperative leaders should meet regularly to review the programs and needs of the Agricultural Cooperative Service. This would be an informal process conducted by organizations representing agricultural cooperatives.

Organization of ACS

The resources presently available to ACS represent a minimum necessary to accomplish the task. The ideal situation would be one in which the additional personnel and funding could be made available to fully meet current and projected needs.

Work should be done to expand the budget and personnel resources available to the Agricultural Cooperative Service. But beyond that, there is a continuing need to organize available resources in a manner yielding the greatest results. For this purpose, the Committee recommends that management should develop, within the limits imposed by Office of Personnel Management, a divisional structure along functional lines. The three operational divisions would include:

(1) Research, analysis and statistical information;
(2) Cooperative education and history; and
(3) Technical assistance.

Such a structure would be capable of responding to existing needs and flexible enough to meet future demands of the agency. Further, as agency resources are increased, added capacity could be fit into the structure with relative ease.

This organizational structure does not envision a rigid compartmentalization of activity. In most instances today, agency personnel devote a portion of their effort to research as well as to technical assistance. This mix of activity has developed staff capabilities soundly based in market needs, cooperative and member requirements, as well as skills supported by attained research capacity. We feel that maintenance of the commodity oriented research expertise of ACS is important.

In organizing ACS to carry out its research function, consideration should be given to the use of a task force concept. With this approach, certain individuals would be designated as leaders in specific areas and would draw on existing agency capabilities in addressing any given research problem.

While this approach may reduce the depth available in any specific commodity or subject area, it would expand ability to respond to broad-based questions and increase overall agency capacity. The same concept would lend itself to technical assistance delivery by the agency.

Presently, ACS has a relatively small portion of its resources devoted to public policy research. There is a need to broaden this effort. Public policy has significant impacts on cooperatives and their operations. In many instances these impacts are not intended nor anticipated. ACS public policy research can be valuable by identifying these potential impacts of policy options, how cooperative operations may strengthen or reinforce a given policy, and how undesirable impacts can be minimized.

Vital to public policy research is the need within USDA and across government, to seek ACS's input on how government policy will impact on farmer cooperatives. This is an area where leadership must be exercised by the Secretary and his office. Consequently, consideration should be given to development of a "Cooperative Impact Statement" in connection with policy formulation. This would formally recognize burdens a policy decision may place on cooperatives, or the manner in which cooperatives themselves could strengthen a policy.

It must be reemphasized that the Review Committee felt strongly that the focus of ACS research must be on (1) issues peculiar to cooperatives, (2) cooperative role and structure in the face of declining farm numbers and the changing structure of agriculture, and (3) maintenance of effective member communication and control in organizations of increasing size and centralization, and related matters. Also the Committee felt that a more visible emphasis must be placed on the historical perspective and context of agricultural cooperatives in the education and information program.

Overall, the work of this division is seen as key to reaching the general public. The information currently available is good. However, more can be done in terms of making the cooperative community aware of this information so that it can be used more effectively. The cooperative community must also share in this responsibility.

The technical assistance division is envisioned as a small, specialized unit that would draw upon the capabilities of other units. Using the task force concept, a group of staff specialists could be assembled to provide the expertise required to address the specific project at hand. In most respects, this approach would not be greatly different from that presently used by the agency.

The technical assistance mission of ACS is a means of making available to groups of farmers, or to existing cooperatives, expert assistance in analyzing the feasibility of organizing a cooperative, restructuring or merging existing cooperatives, or in addressing any number of policy and managerial questions that may face a cooperative.

We agree with ACS's approach to new cooperative development. The focus should not simply be a numbers game of creating new cooperatives. New cooperativs must address a demonstrated need and display a reasonable probability of economic viability.

The field office concept should be carefully evaluated. Without question, the personnel involved in these operations are meeting a need. However, because of resource limitations currently available, the method of providing technical assistance should be constantly appraised. ACS should consider how to utilize the existing expertise of university extension marketing and cooperative specialists. The field office in Hawaii is an example of a field office that is cost-effective, due to the potential travel costs and time required for travel from the Washington, D.C. office.

ACS's role as a stimulator, working with various state extension services can help develop a greater understanding of cooperatives and their needs. It can also stimulate increased acceptance of the cooperative as a business entity.

Providing technical assistance to existing cooperatives must also involve some selectivity. As with research, those projects that offer the prospect of broad application beyond the current problem should be given priority.

6. Recommendation: Consistent with the Office of Personnel Management requirements, ACS should be organized with three operating divisions along functional lines: (1) Research, analysis and statistical information; (2) Cooperative education, history and (3) Technical assistance. This is not seen as a rigid compartmentalization of duties or tasks. In performing research and technical assistance, a task force approach is recommended.

Increased research emphasis is recommended in the area of public policy as it impacts cooperatives. The Department of Agriculture and other government agencies need to be made aware of the impact that public policy decisions may have on cooperatives. Development of a "cooperative impact statement" could address this need.

More needs to be done to make the cooperative community aware of information available through the agency.

The provision of technical assistance is an ongoing need. More can and should be done to involve the Extension Service in this work. The use of resources in field offices should be carefully evaluated.

Agency User Fees

There has been discussion of applying user fees to ACS technical assistance, and establishing a subscription cost for agency publications. During 1983, a user fee study was developed by ACS in conjunction with USDA directives and recommendations of the President's Private Sector Survey on Cost Control. The study is still under review and has not been implemented. Some of the larger cooperatives making use of technical assistance possess resources to meet the cost of such services. In many cases, other cooperatives would be forced to forego such assistance because of its high cost of unavailability. It is probable that the greatest technical assistance benefit is to those who do not have the resources.

We recommend that consideration be given to user fee plan for assistance rendered those with an ability to pay, where the assistance is specific and limited in its application. Assistance to smaller cooperatives and new groups of producers would, under this concept, continue to be provided through appropriated funds.

Regarding the cost of publications, one free subscription of ACS's monthly magazine, Farmer Cooperatives, should continue to be available to all cooperatives. This publication reports on the agency's activities and provides information useful to the cooperative community. Beyond the one free subscription, consideration should be given to charging for the publication, if that policy is consistent with other USDA agencies.

Experience of other USDA agencies in applying subscription charges for their publications should be a guide for ACS. Since most of the agency's publications are of the single issue variety, a policy could be established of providing a single information copy free, with a charge for additional copies of the publication.

Adoption of a user fee for services and publications of the agency is not viewed as a replacement for appropriated funds. User fee income would, be placed in a separate fund to the account of the agency and be available for funding additional research and technical projects or positions.

7. Recommendation: If a user fee plan is implemented, it should be constructed so that those with ability to pay for technical assistance, which is specific and limited in application, would bear the cost of the service. With respect to publications, one free subscription to the monthly magazine, Farmer Cooperatives, should be available to all cooperatives with additional subscriptions on a fee basis. For other ACS publications, one free information copy should be made available, with a charge for additional copies consistent with other USDA agencies.

	Appropriations (dollars in thousands)		
	FY 1984	FY 1985	Difference
Marketing and Inspection Services			
Agricultural Cooperative Service	4,677	4,639	-38
Agricultural Marketing Service	32,030	30,454	-1,576
Animal and Plant Health Inspection Service	271,402	277,041	+5,639
Federal Grain Inspection Service	12,861	6,936	-5,925
Food Safety and Inspection Service	338,808	353,239	+14,431
Office of Transportation	2,549	2,515	-34
Packers and Stockyards Administration	9,013	9,035	+22
Total, Marketing and Inspection	671,340	683,859	+12,519
Economics			
Economic Research Service	44,329	45,614	+1,285
Statistical Reporting Service	54,430	56,289	1,859
World Agricultural Outlook Board	1,533	1,642	+9
Total, Economics	100,292	103,545	+3,153
Science and Education			
Agricultural Research Service	475,406	492,022	+16,616
Cooperative State Research Service	247,655	284,276	+36,621
Extension Service	334,340	343,727	+9,387
National Agricultural Library	10,382	11,400	+1,018
Total, Research	1,067,783	1,131,425	+63,642
Natural Resources and Environment			
Forest Service	1,388,916	1,310,073	-78,843
Soil Conservation Service	621,894	609,383	-12,511
Total, Resources and Environment	2,010,810	1,919,456	-91,354
Total, USDA	35,017,801	34,225,925	-791,876

AGRICULTURAL COOPERATIVE SERVICE

EMPLOYMENT HISTORY (FULL-TIME PERMANENT)

YEAR		DATE	CEILING	CHANGES
FARMER COOPERATIVE SERVICE				
FY-68		07-01-67	105	00.0%
FY-69		07-01-68	93	-11.4%
FY-70		07-01-69	95	2.2%
FY-71		07-01-70	99	4.2%
FY-72		07-01-71	84	-15.2%
FY-73		07-01-72	84	0.0%
FY-74		07-01-73	88	4.8%
FY-75		07-01-74	88	0.0%
FY-76		07-01-75	81	-8.0%
FY-76	(TRANSITION QUARTER)	07-01-76	81	0.0%
FY-77		10-01-76	81	0.0%
ESCS COOPERATIVE PROGRAM				
FY-78	*1	10-01-77	85	4.9%
FY-78	*2	01-01-78	84	-1.2%
FY-78	*3	09-30-78	77	-8.3%
FY-79	*4	10-01-78	72	-6.5%
FY-80	*5	10-01-79	77	6.9%
AGRICULTURAL COOPERATIVE SERVICE				
FY-81	*6	10-01-80	92	19.5%
FY-82		10-01-81	80	-13.0%
FY-83		10-01-82	70	-12.5%
FY-84		10-01-83	70	0.0%
FY-85		10-01-84	66	-5.7%

*1 - Reflects transfer of Co-op Admin. Unit to ESCS Admin. Div. and transfer of 2 Co-op transporation employees to the Office of Transporation and detail of 1 person to SEA.

*2 - Reflects transfer of Co-op Info. unit to central ESCS Info. Staff.

*3 - Reflects transfer of M. Godwin to ESCS Administrator's staff.

*4 - Increase in ceiling to coincide with budget increases in policy, and International Trade areas. Only limited number of ceilings received (4 of requested 10 for budget increase).

*5 - Increase of 5 ceilings in Cooperative Development Division.

*6 - Restored to Agency Status with an increase of 15 ceilings.

THURSDAY, MARCH 13, 1986.

AGRICULTURAL MARKETING SERVICE

WITNESSES

ALAN TRACY, ACTING ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

JAMES C. HANDLEY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

WILLIAM T. MANLEY, DEPUTY ADMINISTRATOR, PROGRAM OPERATIONS, AGRICULTURAL MARKETING SERVICE

EDDIE F. KIMBRELL, DEPUTY ADMINISTRATOR, COMMODITY SERVICES, AGRICULTURAL MARKETING SERVICE

JOHN T. REEVES, DEPUTY ADMINISTRATOR FOR MANAGEMENT, AGRICULTURAL MARKETING SERVICE

JOSEPH A. ROEDER, DIRECTOR, FINANCIAL MANAGEMENT DIVISION, AGRICULTURAL MARKETING SERVICE

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. The committee will come to order.

We have with us the Agricultural Marketing Service. We have spent five years trying to get the Department of Agriculture to sell the commodities it holds through the use of CCC competitive sales. We have been unable to have much success.

If they will not let you sell, why do we need a marketing service? That seems to be the question before us. We would be glad to hear from you, Mr. Tracy.

Mr. TRACY. Thank you, Mr. Chairman. At this time, I would like to introduce Jim Handley, the AMS Administrator.

Mr. HANDLEY. Thank you, Mr. Chairman.

Mr. WHITTEN. We welcome you all to the committee and I frequently point out, we are going to ask the questions, and if we do not have the answers when we get on the House floor, we are in trouble. So I am asking you to tell us why we need this service if CCC will not sell.

Mr. HANDLEY. Mr. Chairman, it is my pleasure to be here this morning to address you and the members of this committee.

Mr. WHITTEN. We would be glad to have your statement for the record. And you might direct yourself as to why you think OMB may have cut your budget. I know you are limited to what the budget provides, but I ask you at this time to tell us what you have this year and what you really need, which frees you from every limitation.

Mr. HANDLEY. All right, sir.

Mr. WHITTEN. All right, proceed.

Mr. HANDLEY. Yes, sir. I have with me this morning, Mr. Chairman, my Deputy Administrator for Commodity Services, Eddie Kimbrell, my Deputy Administrator for Programs, Bill Manley; my Deputy Administrator for Management, John Reeves; and Joe Roeder, the Director of the Financial Management Division for AMS.

It is our pleasure to be here to discuss the AMS programs and the budget for fiscal year 1987.

As you noted, I have submitted a formal statement for the record. I do have some brief comments to make here on our priorities for fiscal year 1987.

We propose reducing our marketing service's appropriation from $31.8 million to $4.3 million. In addition, appropriated funds needed to administer the Section 32 program will be reduced from $9.2 million to $3.3 million. Much of these proposed savings are contingent upon passage of user fee legislation.

PROPOSED LEGISLATION

Mr. WHITTEN. What progress have you made in that? Have you had your hearings before the Legislative Committee?

Mr. HANDLEY. We have not, sir.

Mr. WHITTEN. Have you introduced a bill?

Mr. HANDLEY. We have not, sir. However, we are actively working on it.

Mr. WHITTEN. Do you intend to do it sometime this fiscal year or wait until after October 1st?

Mr. HANDLEY. We would like to get it done sometime this year, of course.

Mr. WHITTEN. Will it be in time for us to act? We have got to get our bills through the House by June 10th, I believe.

Mr. HANDLEY. We hope so, yes.

Mr. WHITTEN. Would you be willing to come back when you get it passed?

Mr. HANDLEY. Yes, sir, we would be.

Mr. WHITTEN. All right, go ahead.

Mr. HANDLEY. Thank you.

Specific proposals requiring legislation do include a $15 million reduction in the Market News Program. Legislation will be proposed which will allow user fees to be charged to recover the entire cost of collecting, analyzing and disseminating market news information.

A $9.4 million reduction for egg products inspection. The proposed legislation will allow user fee assessments to be charged to recover the full cost of that program.

A $3.3 million reduction for commodity standards. Legislation will be proposed to enable fees to be charged for the costs associated with developing, reviewing and modifying those standards.

A $31,000 reduction for the Export Fruit Acts to allow full user fees to be charged for these inspection services.

A $677,000 reduction in market development and assistance. Costs associated with this program will also be recovered through user fees.

A $6.3 million reduction in the Section 32 funds. Proposed legislation will require industry to reimburse AMS for the costs associated with administering marketing agreements and orders.

Reductions which can be achieved without enabling legislation include a $1.6 million reduction to eliminate the Wholesale Market Development Program; a $1 million reduction to eliminate the Payments to States Program, and a $1 million reduction to eliminate the Federal Seed Program. Legislation is being proposed to repeal this act, however, the savings can be achieved without passage of the legislation.

In conjunction with these proposals, one-time start-up costs and close-out costs totalling $2.9 million are being requested. These funds are necessary for each program proposed for termination or whose funding source is being shifted from appropriations to user fees. Resources are needed to fund leave liability, unemployment and workers' compensation and other accrued liabilities.

Once our fiscal year 1987 budget proposals are implemented, the percentage of user fee funding within AMS will increase 73 percent to 95 percent.

At this point, Mr. Chairman, I would conclude our testimony. We are available for any questions you might have.

[CLERK'S NOTE.—The full text of Mr. Handley prepared statement appears on pages 451 through 462. The explanatory notes appear on pages 463 through 504.]

FY 1987 BUDGET REQUEST

Mr. WHITTEN. The budget reduces you, I believe, in the proposal here by $24 million; is that right?

Mr. HANDLEY. Mr. Chairman, we propose reducing our Marketing Services Appropriation by a total of $27.5 million. This consists of reductions of $28.3 million to implement user fee legislation and $2.6 million to eliminate the Wholesale Market Development and Federal Seed programs, and increases of $2.9 million for start-up and close-out costs and $500 thousand to offset increased operating expenses in fiscal year 1987.

In other areas, our budget includes reductions of $1.0 million to eliminate the Payments to States program and $6.3 million to shift the funding of the Marketing Agreements and Order program from appropriations to user fees.

Mr. WHITTEN. Has OMB told you yet whether that $28.3 million is being transferred to building new embassies? We have a request for $4.4 billion to build new embassies in countries I have never heard of. All to stop the terrorists.

We also have the carryover of unspent funds for military spending. The Defense Department had at the beginning of this year, $244 billion unspent. They are asking us to increase that from $244 billion to $299 billion next year.

Has any one said whether they are going to put this $28 million they are cutting you, whether it is going to be shifted to foreign aid, or whether it is going to be added to military carryover?

Mr. HANDLEY. No, sir, they have not.

NUMBER OF USER FEE POSITIONS

Mr. **Whitten**. How many people would you lose based on this proposal, if we do not get user fees?

Mr. **Handley**. If we do not get user fees, but our funding is maintained at the FY 1986 level, we would not anticipate losing any people. If the funding is cut and we do not have user fee legislation we would lose 745 people. If proposed user fee legislation is not enacted, AMS would need $28,350,000 in Marketing Services and $6,273,000 in Marketing Agreements and Orders to continue current operations in fiscal year 1987.

Mr. **Whitten**. You are not living in hopes of getting user fees, are you?

Mr. **Handley**. Yes, we are, sir.

Mr. **Whitten**. Well, you ought to get busy trying to. You have not even submitted a request to the legislative committee. You have not introduced a bill. So on what do you base your hope?

Mr. **Handley**. Well, we are confident that if we get the go-ahead to do this, we can find sponsors to introduce our user fee legislative proposals.

Mr. **Whitten**. Well, it is too late. OMB has already told you to go ahead and count on it. But they have not done anything about getting it passed. There is nothing in our hearings, to show that they have done anything towards bringing it about.

Of course, it makes the picture look good when you go to the country and say you have reduced the budget by all this amount. But that depends upon legislation you have not done anything to promote.

Mr. **Handley**. Well, in AMS, we are very much user fee oriented already, as reflected by our total numbers.

Mr. **Whitten**. Well, there is $28 million here that you are not yet authorized.

Mr. **Handley**. But that represents only about 25 percent of all our funds.

Mr. **Whitten**. You can stand that? You can stand that all right?

Mr. **Handley**. We can stand it only if we transfer those funds from the appropriated accounts to user fees.

Mr. **Whitten**. It would leave you only $5 million.

Mr. **Handley**. Yes, in our appropriated account that is correct.

Mr. **Whitten**. Can you stand that all right?

Mr. **Handley**. We feel we can make the conversion, yes, sir. That is why we are proposing to convert more of our budget to user fees.

Mr. **Whitten**. So you do not need us to restore that cut?

Mr. **Handley**. We would have to have one or the other. If user fee legislation were not enacted we would need the Appropriations Committee to restore the appropriated funds to continue those activities.

Mr. **Whitten**. That is what I am saying. If we were to go with the budget, give us a list of what we would have to cut out, for the record. If you know now, tell us. But give us something to go on.

Mr. **Handley**. Yes, I understand.

Mr. **Whitten**. If we do not get information from you, we have nothing to offer on the House floor.

Mr. HANDLEY. I understand. We will respond to your question for the record.

AMS BUDGET PROPOSAL

Mr. WHITTEN. You either propose to fund programs through user fees or to terminate them. In light of Congress' continued rejection of these proposals, what new evidence do you have to support your proposals?

Mr. HANDLEY. We continue to believe that those programs proposed for elimination can and should be provided for by the States. It is our belief that Federal participation is not necessary to assure that these projects will be continued. Furthermore, severe budget constraints make it more imperative that only the most essential services be maintained. We also believe that, for those programs proposed for user fees, the recipients of those services should bear the financial cost associated with providing that service.

ACTIVITIES PROPOSED FOR DIRECT APPROPRIATIONS

Mr. WHITTEN. What activities have been previously funded on a reimbursable basis to the Departmental Administration Office and the Office of Governmental and Public Affairs and are now proposed for direct appropriations?

Mr. HANDLEY. The activities which have been proposed for direct appropriations which were formerly funded on a reimbursable basis to the Departmental Administration Office are: USDA Central Employment Office, EEO Complaint Processing, Emergency Preparedness, Ethics in Government Act, Examiner Service of Employee Appeals, Health Services, Management Analysis Reporting System, Performance Appraisal System, Personnel Management Evaluation Questionnaire, SES Candidate Development, Upward Mobility Program, USDA Vacancy Announcements, and Cost Management.

The activities proposed for direct appropriation which were formerly funded through the Office of Governmental and Public Affairs are: USDA Newsletter, Visitor Information Center, TV Production, and Photocomposition.

ADDITIONAL STAFF YEARS AND FUNDING

Mr. WHITTEN. Although there were several new mission requirements for the Agricultural Marketing Service because of the Food Security Act of 1985, you propose a reduction in staff-years of 75. If Congress should again reject the Administration proposals to terminate or convert programs to user fee funding, how many additional staff-years and dollars would you need to provide current service and the additional requirements of P.L. 99-198? Provide that for the record.

[The information follows:]

AMS would need a total of $40,565,000 to maintain current services and provide the additional work required by P.L. 99-198. The specifics of this amount, by account, are as follows:

Marketing Services: $32,434,000. These totals are comprised of:

- A current request of $4,343,000.

- An increase of $2,577,000 to maintain current services for the Wholesale Market Development and Federal seed programs which are proposed for elimination.
- An increase of $28,350,000 to continue current operations for those programs proposed for conversion to user fees in fiscal year 1987.
- An increase of $95,000 to restore proposed A-76 and other management initiative reductions.
- A reduction of $2,931,000 for start-up and close-out costs.

Payments to States: $984,000 is needed to restore the funding for this program which is proposed for elimination.

Section 32 Administrative Funds for Marketing Agreements and Orders: $7,147,000. These totals are comprised of:

- A current request of $336,000.
- An increase of $6,273,000 to maintain current operation of the marketing agreements and orders program which was proposed for conversion to user fees in fiscal year 1987.
- $874,000 for the marketing agreements and orders program to implement the provisions of P.L. 99-198.
- A reduction of $336,000 for start-up costs.

In addition, P.L. 99-198 includes provisions to carry out Beef, Pork, and Watermelon Research and Promotion Programs and an imported tobacco pesticides program. The costs associated with these activities will be funded through assessments to the industries involved.

No additional staff-years would be required since it would be a shift in staff-years from user fee proposal to appropriated money.

PROPOSED LEGISLATION

Mr. WHITTEN. Would you please provide for the record a list of all legislation that you would have proposed for fiscal year 1987. Also, please provide a program and financing statement for each proposal.

Mr. HANDLEY. We are proposing legislation which would enable us to charge user fees for market news, marketing agreements and orders, export fruit, standardization, plant variety protection and egg products inspection. In addition to these user fee proposals, we are also submitting legislation to repeal the Federal seed program. Legislation to provide for less-than-continuous inspection and summary withdrawal of inspection under the egg products inspection program was submitted to Congress in August 1985. There has been no action to date on this proposal which is combined with similar proposals for meat and poultry inspection.

The program and financing statements will be provided for the record.

[The information follows:]

MARKETING SERVICES

(Proposed for later transmittal, proposed legislation)

PROGRAM AND FINANCING

[In thousands of dollars]

	Identification code 12-2500-2-1-352	1985 actual	1986 est.	1987 est
	Program by activities			
10.00	Total obligations			
	Financing			
14.00	Offsetting collections from: Non-Federal sources			−26,710
40.00	Budget authority (appropriation)			−26,710

PROGRAM AND FINANCING—Continued

[In thousands of dollars]

Identification code 12-2500-2-1-352	1985 actual	1986 est.	1987 est
Relation of obligations to outlays			
71.00 Obligations incurred, net			−26,710
90.00 Outlays			−26,710

FUNDS FOR STRENGTHERNING MARKETS, INCOME, AND SUPPLY (SECTION 32)

(Proposed for later transmittal, proposed legislation)

PROGRAM AND FINANCING

[In thousands of dollars]

Identification code 12-5209-2-2-605	1985 actual	1986 est.	1987 est
Program by activities			
01.01 Direct program: Administrative expenses			−5,937
02.01 Reimbursable program			−84
10.00 Total obligations			−6,021
Financing			
11.00 Offsetting collections from: Federal funds			84
24.40 Unobligated balance available, end of year			5,937
39.00 Budget authority			
Relation of obligations to outlays			
71.00 Obligations incurred, net			−5,937
90.00 Outlays			−5,937

LEGISLATIVE FUNDING REQUIREMENTS

Mr. WHITTEN. If Congress does not enact the legislative changes you are proposing, what are your additional funding requirements? Please list for each item. You may provide that for the record.

[The information follows:]

If Congress does not enact our proposed legislative changes, the additional funding requirements are as follows:

	($000)
Marketing Services:	
Market News	+$15,029
Egg Products Inspection	+9,356
Standardization	+3,257
Export Fruit	+31
Market Development and Assistance	+677
Start-up Costs	−1,640
Total, Marketing Services	+26,710
Section 32 Administrative Expenses:	
Marketing Agreements and Orders	+6,273
Start-up Costs	−336
Total, Section 32	+5,937
Total, AMS	32,647

If the legislation is not enacted and these funds are not included in the budget, all of these programs would be eliminated.

USER FEES

Mr. Whitten. Please submit the proposed implementation plan for the collection of user fees to fund activities under the Export Fruits Act and the Market Development and Assistance Program. Please provide a table showing the five-year history of fees collected versus costs for the Plant Variety Protection Act.

Mr. Handley. If user fees are implemented for the Export Fruit Act, current fees paid by exporters for the inspection of these fruits would be increased to include costs of this program.

The economic analysis activities, carried out under the market development and assistance program (MDA), support the commodity purchase program and the marketing agreements and orders program. It is our intent that once the marketing agreement and orders user fees are implemented we will assess this activity for the appropriate portion of MDA costs.

A five-year history of fees collected versus obligations for the Plant Variety Protection Act will be provided for the record.

[The information follows:]

	Collections	Obligations
Fiscal year:		
1981	$117,000	$485,488
1982	138,750	443,812
1983	207,500	286,758
1984	284,150	331,810
1985	454,075	384,414

EXPORT FRUIT ACTS

Mr. Whitten. Please give a detailed explanation and implementation plan for the proposed user fees for the inspections administered by the Export Apple and Pear Act and the Export Grape and Plum Act.

Mr. Handley. If user fees are implemented for administration of the Export Apple and Pear Act and the Export Grape and Plum Act, the Agricultural Marketing Service will increase the current fee charged to exporters for inspection of fruits for export shipment. It is expected that this increase in inspection fees would be minimal. Administrative oversight responsibilities are expected to cost about $30,000 annually and can be handled with existing staff.

INSPECTION AND GRADING FEES

Mr. Whitten. There is a significant difference in the hourly rates charged for inspection and grading action. For instance, holiday inspection for egg products is $14.20 per hour, while the holiday rate for meat grading is $52.80 per hour. Since Federal inspectors are used, why would there be such a wide variation?

Mr. Handley. The methods of assessing fees for inspection and grading services are suited to each industry for which the services are provided. For some industries, volume fees are more appropriate; in others, hourly charges are more suitable. There are several reasons why the various rates differ. First, the average grades of the graders vary among commodities. In addition, some rates include a basic fee plus a volume charge. Rates are also dependent upon whether the service is provided on a resident (in-plant) or non-resident (out-of-plant) basis. Some rates include travel costs incurred in providing the service, whereas in others travel costs are separately billed. The egg products inspection holiday charge to which you referred is somewhat unique. The cost of providing regular inspection services is supported through appropriations. Only the incremental costs for holiday and overtime services are supported by fees.

Despite the seemingly large variance, the fees are more comparable when all the factors are considered. In addition, if industry felt they were being overcharged, demand for our services would be curtailed, and this has not occurred.

USER FEE OPERATING EXPENSES

Mr. **Whitten**. How is it that although you propose to terminate some programs in AMS during fiscal year 1987, you need to request a $911,000 increase in operating expenses? Please provide a detail on the increased operating costs.

Mr. **Handley**. This $911,000 increase is for the user fee activities of the cotton and tobacco grading programs. This increase is to maintain a current level of operation in fiscal year 1987.

LIMITATION ON ADMINISTRATIVE EXPENSES

Mr. **Whitten**. For the record please provide an object classification table for fiscal years 1985, 1986, and 1987 for the amounts covered by the limitation on administrative expenses account.

[The information follows:]

ADMINISTRATIVE EXPENSE LIMITATIONS—OBJECT CLASSIFICATION

[In thousands of dollars]

		Fiscal year		
		1985 actual	1986 est.	1987 est.
	Personnel compensation:			
11.1	Full-time permanent	9,585	10,695	10,950
11.3	Other than full-time permanent	4,180	3,840	3,931
11.5	Other personnel compensation	785	975	998
11.9	Total personnel compensation	14,550	15,510	15,879
12.1	Personnel benefits: Civilian	1,672	1,857	1,901
13.0	Benefits for former personnel	957	975	998
21.0	Travel and transportation of persons	2,439	2,552	2,688
22.0	Transportation of things	407	405	427
23.1	Standard level user charges	661	700	737
23.2	Rental payments to others	1,200	1,250	1,317
23.3	Communications, utilities and misc. charges	1,154	1,200	1,264
24.0	Printing and reproduction	75	100	105
25.0	Other services	1,620	1,841	1,939
26.0	Supplies and materials	452	455	479
31.0	Equipment	414	408	430
43.0	Interest and dividends	2		
99.0	Total obligations	25,603	27,253	28,164

AGENCY AND DEPARTMENT REQUEST

Mr. **Whitten**. Please provide an object class table for AMS that shows the agency requests to the Department and one showing the Department's request to OMB.

Mr. **Handley**. The Agency request to the Department was the same as the Department's request to OMB.

[The information follows:]

AMS/USDA REQUEST TO OMB—OBJECT CLASSIFICATION

[In thousands of dollars]

		1987 estimate
	Direct obligations:	
	Personnel compensation:	
11.1	Full-time permanent	$17,797
11.3	Other than full-time permanent	515
11.5	Other personnel compensation	146
11.0	Total personnel compensation	18,458
12.0	Personnel benefits: Civilian	2,604
13.0	Benefits for former personnel	876
21.0	Travel and transportation of persons	1,329
22.0	Transportation of things	123
23.2	Rentals payments to other	300
23.3	Communications, utilities, and misc. charges	2,439
24.0	Printing and reproduction	155
25.0	Other services	4,026
26.0	Supplies and materials	398
31.0	Equipment	440
99.0	Total, direct obligations	31,148

A-76 AND MANAGEMENT INITIATIVES

Mr. **Whitten**. In the explanatory notes under "Justification of Increases and Decreases" several items claim decreases for A-76 and management initiatives. Would you please detail these decreases?

Mr. **Handley**. We were directed by the Office of Management and Budget to take across-the-board cuts of $95,000 in A-76 and management initiatives. Specific items for decrease have not been identified yet.

SECTION 32 APPROPRIATION

Mr. **Whitten**. You are anticipating that your fiscal year 1987 appropriation for Section 32 will be $3,694,000,000. Has there been any change in this estimate since the budget was presented in January?

Mr. **Handley**. Yes, Treasury provided us with a revised estimate of $3,785,563,745. This estimate includes $57,426,231 of Customs receipts from fishery products which is transferred to the Department of Commerce.

SECTION 32 UNOBLIGATED BALANCE

Mr. **Whitten**. On page 17-2 of the Department notes under the project statement you show an increase of $59 million in the unobligated balance available at the end of the year. Why do you expect such a large increase?

Mr. **Handley**. The increase of $59 million in the unobligated balance is the result of funds being set aside to raise the emergency surplus removal program to $225 million in fiscal year 1987.

The Section 32 surplus removal program consists of two parts: planned purchases and emergency surplus removal. The level of planned purchases and the types of commodities to be bought are determined by both the needs of the domestic feeding program of the Food and Nutrition Service and an economic forecast of anticipated surplus.

However, unforecasted surpluses do develop as a result of weather conditions, market fluctuations, or other uncontrollable events. When this occurs, it is important to have a reserve sufficient to alleviate these surpluses. Morever, since this program is designed to remove surplus perishable commodities, it is important to have these funds available at the start of the fiscal year. Historically, a reserve of $225 million has proven to be adequate and this is the level we set aside.

SECTION 32 PURCHASES

Mr. **Whitten**. Please provide for the record the chart of section 32 purchases as shown on page 17-6 of the explanatory notes.

[The information follows:]

SECTION 32 COMMODITY PURCHASES FY 1984 AND 1985

[In thousands]

Item	1984 actual		1985 actual	
	Pounds	Obligations	Pounds	Obligations
Almonds			2,250	$1,825
Apples, Fresh	7,694	$1,564	42	9
Applesauce	46,940	11,859	36,768	9,270
Apricots	3,118	1,875		
Beans, Dry	16,065	3,577	31,377	6,309
Beans, Green, Canned	22,774	5,804	18,612	4,519
Beans, Green, Frozen	999	317	333	102
Beans, Vegetarian	18,725	4,293	43,306	9,064
Beef, Canned	7,781	11,440	4,475	6,055
Beef, Bulk, Frozen, Ground	141,036	147,007	80,922	79,316
Beef Patties	22,566	24,163	31,060	30,973
Beef, Roast			4,522	5,991
Blueberries, Canned			1,115	762
Blueberries, Frozen	560	337	4,336	3,171
Cherries, Red, Frozen	12,971	7,124	12,279	5,816
Chicken, Frozen, Cut-Up	53,806	34,847	69,355	42,244
Chicken, Frozen, Thighs	6,411	3,421	3,338	1,842
Chicken, Frozen, Whole	1,872	1,106	5,400	2,921
Chicken, Patties, Frozen	7,813	10,593	10,764	13,975
Corn, Canned			51,494	13,569
Corn, Frozen			4,917	1,621
Egg Mix			9,238	14,208
Fig Nuggets			6,534	5,000
Fig Paste	200	80		
Figs, Dried	1,000	522		
Grape Juice, Canned			8,106	1,928
Ham, Uncooked	36	68		
Peaches, Canned	20,655	8,709	20,627	8,492

SECTION 32 COMMODITY PURCHASES FY 1984 AND 1985—Continued

[In thousands]

Item	1984 actual		1985 actual	
	Pounds	Obligations	Pounds	Obligations
Pears, Canned	30,386	12,644	9,413	4,047
Pears, Fresh	14,458	3,483	5,015	1,188
Peas, Canned			12,372	2,954
Peas, Frozen			1,312	377
Pork, Canned	47,464	58,519	25,498	28,438
Potatoes, French Fries	37,586	10,843	19,619	7,357
Potatoes, Rounds			52,436	16,702
Potatoes, Sweet, Mashed	451	124	1,250	307
Potaotes, Sweet, Syrup Pack	10,110	3,609	8,672	2,710
Prunes, Dried			6,429	4,018
Raisins	17,599	8,431	9,061	4,457
Salmon, Canned	2,258	3,467	1,895	2,817
Tomato Paste	21,108	8,965	33,174	13,857
Tomatoes, Canned	24,438	7,703	18,631	4,932
Tuna, Canned			5,187	6,602
Turkey, Chilled	2,772	2,059	1,440	1,163
Turkey, Roast	17,612	24,510	8,882	14,516
Turkey, Whole	17,536	13,083	298	243
Vegetables, Mixed			18,333	6,538
Walnuts, English	1,333	1,786	1,486	2,408
Miscellaneous	65	22		
Total	638,198	$437,954	701,573	$394,613

SUMMARY OF PURCHASES BY COMMODITY GROUP

[In thousands]

	1984 actual		1985 actual	
	Pounds	Obligations	Pounds	Obligations
Commodity groups:				
Poultry	107,822	$89,620	108,713	$91,113
Meat	221,140	244,664	153,560	160,191
Fruit	156,784	58,374	123,461	52,391
Vegetables	152,452	45,296	315,839	90,918
Total	638,198	$437,954	701,573	$394,613

SECTION 32 STATUTORY LIMITATION

Mr. **Whitten**. New requirements for AMS in the 1985 Food Security Act include requiring the Secretary to change the Class I pricing provision for 35 milk orders; authorizing the adoption of marketwide service payment provisions under milk orders; requiring random spot checks on potatoes entering the northeastern United States ports to reduce the volume of substandard imported Canadian potatoes. Additionally, we know that the legislative committee is holding hearings on an industry proposal for an Egg Marketing Order. If all of these things are to come to fruition, how much would your statutory limit have to be increased over and above the President's current request of $6,273,000?

Mr. **Handley**. In addition to the requirements you listed, the Food Security Improvement Act of 1986 places additional requirements for timely hearings and prompt implementation of marketwide industry services proposals. In total, our statutory limitation should be increased by $874,000 to a new level of $7,147,000 for fiscal year 1987.

MARKETING AGREEMENTS AND ORDERS USER FEES

Mr. **Whitten**. Describe the agency's implementing plan for assessing regulated handlers for costs of administering marketing agreements and orders.

Mr. **Handley**. The Secretary would apportion USDA's costs to each marketing order as equitably as possible. The assessments would be collected by the market administrators and administrative committees. Since the market administrators and administrative committees already collect assessments, the collection of additional sums to fund the federal portion of the costs would impose minimal costs.

MARKETING AGREEMENTS AND ORDERS

Mr. **Whitten**. What are the impacts to the Agricultural Marketing Service functions as a result of the limitation on authority to terminate marketing orders that was enacted as part of P.L. 99-198?

Mr. **Handley**. The 60-day notification requirement has the effect of delaying the termination process. This will cause unnecessary uncertainty in affected industries, especially when an industry itself favors order termination, and will result in unnecessary expense to the government.

RESPONSE TO GAO ON MARKETING ORDERS

Mr. **Whitten**. In July 1985, GAO report titled "The Role of Marketing Orders in Establishing and Maintaining Orderly Marketing Conditions" recommended that the Department develop a method to measure the effectiveness of individual marketing orders. The Department agreed to form a task force to develop marketing order criteria and update its operations manual during fiscal year 1986. What is the status of these recommendations and your actions?

Mr. **Handley**. The Department's Economic Research Service has entered into a cooperative agreement with the Agricultural Marketing Service to undertake the development of criteria to measure the performance of marketing orders as recommended in the General Accounting Office report. AMS will provide funding in the amount of $75,000 for the project. Project planning has already begun with completion targeted for the fall of 1986. The update of the marketing order operations manual is also underway. This project will be conducted with the assistance of a private contractor and is expected to cost about $15,000.

UNGRADED POSITIONS

Mr. **Whitten**. You have carried 24 ungraded positions within AMS for the last two years. Please describe the work done by the ungraded positions.

Mr. **Handley**. The 24 ungraded positions within AMS are those positions that can't be classified as General Schedule. We have 21 Wage Grade employees. Their duties include operating cotton fiber spinning machines, maintaining grading equipment which evaluate maturity of raisins, cleaning laboratory areas, receiving and storing grading samples, and operating offset presses. There are also 3 employees classified as Administratively Determined. These employees are fresh fruit and vegetable inspectors in Arizona and Puerto Rico. They have Federal appointments under Cooperative Agreements.

ELIMINATION OF POSITIONS

Mr. WHITTEN. According to the chart on page 16-5 of the explanatory notes, all the positions proposed for elimination fall in GS grades 11 through 14. Why such a narrow band for elimination?

Mr. HANDLEY. The positions proposed for elimination are from the Wholesale Market Development and Federal Seed programs. All positions for these two programs range in grade levels from GS-1 through GS-14. Most, however, are professional employees in the GS-11 through GS-14 range. With the elimination of these programs all of the positions, regardless of grade level, would be eliminated.

FORMER PERSONNEL BENEFITS

Mr. WHITTEN. The benefits for former personnel jumped from $82,000 in fiscal year 1986 to $876,000 in fiscal year 1987. Are these termination costs for fiscal year 1987? Please provide a detailed explanation of this account.

Mr. HANDLEY. Yes, the increase in benefits for former personnel is for termination costs for the loss of 50 positions in the Wholesale Market Development and Federal Seed Act programs. Once these programs are terminated, we must pay for unemployment compensation benefits and severance pay. This amount represents our best estimate of these costs.

OBJECT CLASS BREAKDOWN

Mr. WHITTEN. Please place in the record at this point the object class table that appears on page 16-6 of the explanatory notes. Also please provide an object class breakdown based on current services rather than the budget proposal.

[The information follows:]

AGRICULTURAL MARKETING SERVICE CLASSIFICATION BY OBJECTS

[1985 and Estimated 1986 and 1987]

	1985	1986	1987
Personnel Compensation			
Headquarters	$6,035,442	$6,261,000	$4,967,000
Field	12,825,317	13,306,000	13,431,000
11 Total personnel compensation	18,860,759	19,567,000	18,398,000
12 Personnel benefits	2,533,603	2,746,000	2,597,000
13 Benefits for former personnel	63,551	82,000	876,000
Total Personnel Compensation and Benefits	21,457,913	22,395,000	21,871,000

AGRICULTURAL MARKETING SERVICE CLASSIFICATION BY OBJECTS—Continued

[1985 and Estimated 1986 and 1987]

		1985	1986	1987
	Other Objects			
21	Travel	1,175,172	1,354,000	1,329,000
22	Transportation of things	113,457	120,000	123,000
23.2	Rental payments to others	281,607	290,000	300,000
23.3	Communications, utilities and misc. charges	2,252,000	2,359,000	2,431,000
24	Printing and reproduction	172,818	186,000	155,000
25	Other services	3,952,397	4,211,000	4,006,000
26	Supplies and materials	446,591	420,000	398,000
31	Equipment	716,293	504,000	440,000
41	Grants, subsidies, and contributions	985,548	984,000	
43	Interest and dividends	1,005		
	Total Other Objects	10,096,888	10,428,000	9,182,000
	Total Direct Obligations	31,554,801	32,823,000	31,053,000

OBJECT CLASS BASED ON CURRENT SERVICES

11	Total personnel compensation	$19,664,000
12	Personnel benefits	2,762,000
13	Benefits for former personnel	82,000
	Total Personnel Compensation and Benefits	22,508,000
21	Travel	1,416,000
22	Transportation of things	126,000
23.2	Rental payments to others	300,000
23.3	Communications, utilities, and misc. charges	2,470,000
24	Printing and reproduction	194,000
25	Other services	4,454,000
26	Supplies and materials	439,000
31	Equipment	527,000
41	Grants, subsidies, and contributions	984,000
43	Interest and dividends	
	Total Other Objects	10,910,000
	Total Direct Obligations	33,418,000

RESEARCH AND PROMOTION PROGRAMS

Mr. WHITTEN. In 1983, the Department would not allow the pecan industry to hold a referendum for a research and promotion marketing order unless surpluses detrimentally affected producer incomes. Yet, in 1985, USDA stated that research and promotion programs are the most beneficial types of marketing order programs. There appears to be a conflict between the Department's stated policy and the Department's actions. Can you reconcile these apparent conflicts?

Mr. HANDLEY. The decision not to allow pecan growers to vote on a research and promotion marketing order was based on evidence gathered at public hearings held in February 1983. The evidence indicated that most pecan producers had experienced little difficulty in marketing their commodity and that the industry did not have chronic surplus problems. While the record did indicate that crop volume may increase in the years ahead, it did not establish that this production would be greater than market requirements. Hence, the Secretary determined that under the enabling legislation a referendum would not be appropriate. The determination on the proposed pecan marketing order was based on the evidence of the February proceeding and is not inconsistent with stated policy. The Department continues to support market research and promotion programs when industry conditions warrant the use of such programs.

BEEF, PORK, WATERMELON RESEARCH AND PROMOTION ACTS

Mr. WHITTEN. The Beef Promotion and Research Act; the Pork Promotion Research and Consumer Information Act of 1985; and the Watermelon Research and Promotion Act were passed with the Food Security Act of 1985. What kind of resources impact will this have on AMS, assuming Congress does not agree to terminate or fund AMS through user fees?

Mr. HANDLEY. For FY 1987, there should be no impact on the Agricultural Marketing Service resources as a result of the Beef Promotion and Research Act and the Pork Promotion Research and Consumer Information Act of 1985 since costs associated with implementation are fully reimbursable by industry.

The Watermelon Research and Promotion Act provides for reimbursement of Departmental administrative and referendum costs once the program is implemented. USDA costs for promulgating the order and conducting the initial referendum would approximate $50,000.

NATIONAL DAIRY PRODUCTS RESEARCH, PROMOTION AND EDUCATION REFERENDUM

Mr. WHITTEN. Was the referendum to continue funding the National Dairy Products Research and Promotion and Education program held as scheduled during August 1985? What were the results? Did the Food Security Act of 1985 impact this program in any way? How much do you expect to earn from your investment program in fiscal year 1986?

Mr. HANDLEY. The referendum to continue the National Dairy Products Research and Promotion and Education program was held as scheduled August 1–20, 1985. Continuation of the Dairy Promotion and Research Order was approved by 89.7 percent of the 120,330 producers voting.

The Food Security Act of 1985 authorizes the Secretary of Agriculture to establish a National Dairy Research Endowment Institute which would be administered by the National Dairy Promotion and Research Board. Implementation of this program involves a request from industry accompanied by a proposed dairy products research order and a decision by the Secretary on issuance of the order. To date, no proposed order has been submitted to USDA by the dairy industry.

The National Dairy Board will earn $1 million from interest on industry funds collected in fiscal year 1986. There is no investment income to AMS from this program.

OTHER SERVICES

Mr. **Whitten**. Of the $31,053,000 appropriation request for fiscal year 1987, about $4,000,000 falls in the category of "other services." Please provide a more detailed breakdown of this object class.

Mr. **Handley**. The major portion of the $4,000,000 in "other services" consists of $2,300,000 for reimbursable agreements with States to conduct the shell egg surveillance and egg products inspection programs. The other major contracts include $500,000 to the Animal and Plant Health Inspection Service for administrative and personnel support services and $450,000 for computer processing services with the National Finance Center and the Washington Computer Center.

The balance of the funds will be used for equipment maintenance contracts, and cooperative projects with States for the cost of disseminating marketing information and financing research studies to improve the efficiency of food marketing systems.

EQUIPMENT PURCHASES

Mr. **Whitten**. Since 1983, there has been a steadily significant decrease in the funds requested for equipment—from over $1.1 million in fiscal year 1983 to $440,000 in fiscal year 1987. Please explain.

Mr. **Handley**. AMS has been increasingly converting to an automated environment through the purchase of hardware, software and updating of agency information systems. The major automation efforts have occurred during the last four years.

In addition, the fiscal year 1983 AMS appropriation from which the $1.1 million was expended, included funds for our cotton grading activity. Over $500,000 of this amount was used to purchase bale presses, terminals, and card punches for use in grading cotton samples. Any cotton purchases in succeeding years were made from the User Fee fund established under the Omnibus Budget Reconciliation Act of 1981.

AGRICULTURAL LABOR AFFAIRS

Mr. **Whitten**. Please provide for the record a copy of the Secretary's Memorandum No. 1020 dated July 21, 1985, that transfers functions related to agricultural labor affairs to the Economic Research Service and the Assistant Secretary for Economics. Briefly explain why this transfer is necessary since you just established this office in AMS only a year ago.

Mr. **Handley**. The Economic Research Service, where the program was transferred, provides services which closely parallel the functions of the Agricultural Labor Affairs program. Therefore, from an administrative standpoint, it was felt that a less costly and more efficient program could be achieved if these functions were consolidated in one location. A copy of Secretary's Memorandum No. 1020–21 is provided for the record.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

July 17, 1985

SECRETARY'S MEMORANDUM 1020-21

Transfer of the Agricultural Labor Affairs Program

1 PURPOSE

In 1984, the Agricultural Marketing Service was assigned the agricultural labor affairs program, which consisted of developing a systematic agricultural labor policy to ensure an adequate and productive supply of labor to facilitate agricultural production and to ensure an adequate level of income and quality of life for people employed in agriculture.

The Economic Research Service under the Assistant Secretary for Economics carries out a national program of research relating to the production and marketing of agricultural commodities.

In order to strengthen the effectiveness of the agricultural labor affairs program, it is being transferred to the Assistant Secretary for Economics and the Economic Research Service.

2 ACTIONS ORDERED

Effective July 21,1985, the Assistant Secretary for Economics and the Administrator, Economic Research Service are responsible for administration of the agricultural labor affairs program.

3 INCIDENTAL TRANSFERS

The Assistant Secretary for Administration and the Director, Office of Budget and Program Analysis are authorized to approve such transfers of funds, personnel, employment authority, space, records, property, and incidentals as may be necessary to implement the provisions of this memorandum.

DISTRIBUTION: 10

OPI: OP

EDI

Mr. WHITTEN. Several agencies of USDA, including the Agricultural Marketing Service, use the Electronic Dissemination of Information system. Does the Department fund the EDI as a single entity or does it bill each agency for individual use? How much does AMS pay into the system?

Mr. HANDLEY. EDI is a USDA information database operated by a private vendor who is supplied by seven agencies within USDA with information such as foreign trade leads, news releases and price information from commodity markets. The Office of Governmental and Public Affairs (OGPA) acts as a coordinator between the vendor and the agencies who load information into the system. For convenience in billing, OGPA is billed by the vendor and, in turn, bills the individual agencies who use the system. The charges to the agencies by the vendor are three cents per line of entered text and $7.50 per month for each dedicated phone line; if any, leased by the agency.

For FY 1986, the cost to AMS is estimated at $45,000

MARKET NEWS USER FEES

Mr. WHITTEN. Do you have an estimated cost to the user for the Market News Services if user fees were allowed to fully fund this activity? Please outline how the user fee collections would be implemented?

Mr. HANDLEY. A table will be provided for the record which shows the estimated cost of market news services to its users. User fees would be assessed to first handlers for each commodity. First handlers are shippers, grower-shippers, cooperatives, wholesalers, chainstore receivers or others who deal directly with farmers.

[The information follows:]

AGRICULTURAL MARKETING SERVICE

11-Feb-86

MARKET NEWS INFORMATION

PROGRAM:	FY 1987 FUNDING	NUMBER OF HANDLERS	FEE/ HANDLER	BASIS FOR CALCULATION	COMPARABILITY BASIS	
					FEE/UNIT OF PRODUCTION	BASIS FOR CALCULATION
COTTON FUTURES	$1,599,000	1,900	$.09/BALE $.22/BALE	12 MILLION BALES 2.3 MILLION CONTRACTS	$.09/BALE $.22/CONTRACT	12.0 MILLION BALES 2.3 MILLION CONTRACTS
DAIRY	$390,000	1,000	$.0034/CWT.	MAY MILK MARKETINGS 11.5 BILLION LBS.	$.0034/CWT.	MAY MILK MARKETINGS 11.5 BILLION POUNDS
FRUIT AND VEGETABLE	$4,365,000	6,000	$.00844/CWT.	51.7 BILLION LBS.	$.00844/CWT.	51.7 BILLION POUNDS
LIVESTOCK: LIVESTOCK	$5,322,000	14,000	$360.00	14,000 BUYERS, DEALERS AND MARKETS.	$.00623/CWT.	85.4 BILLION POUNDS
GRAIN	$567,000	16,000	$35.00	16,000 GRAIN PROCESSORS	$.00007/CWT.	747.1 BILLION POUNDS
SUBTOTAL:	$5,889,000					
POULTRY: POULTRY	$1,224,000	410	$3,034.00	410 SLAUGHTERING PLANTS	$.00749/CWT.	16.6 BILLION POUNDS
EGG	$763,000	1,000	763.00	1000 SHELL PACKING AND SHELL BREAKING PLANTS	$.00013/DOZEN	5.8 BILLION DOZEN
SUBTOTAL:	$2,007,000					
TOBACCO	$779,000	550	$.06/CWT.	1.3 BILLION LBS.	$.06/CWT.	1.3 BILLION POUNDS
TOTAL	$15,029,000					

STATE PARTICIPATION IN MARKET NEWS

Mr. **Whitten**. There are six States that do not participate in sharing the cost of collecting and disseminating market information. Which States do not participate and why?

Mr. **Handley**. There is a total of 49 cooperative agreements with the States of which 43 States and the District of Columbia participate. There are actually seven States that do not participate in the sharing of the cost of collecting and disseminating market information. These States are: Alaska, Indiana, Kansas, Montana, Nevada, North Dakota and South Dakota. The degree of Federal/State participation in market news reporting depends upon the national impact of the particular market and importance of the information. In general, markets and their reporting offices are classified according to significance: National significance for which the Federal government will pay the full costs for reporting activities; National and intrastate significance, for which the Federal government shares reporting costs with the State government, and local markets significance only for which the Federal government will not fund reporting activities. We have livestock and grain Federal offices in five of the States—Indiana, Kansas, Montana, South Dakota, and North Dakota—that do not have cooperative programs with AMS. We operated a Federal-State office in North Dakota, but in 1976 we closed this office due to budget reductions. We now cover the Red River Valley potato growing area in North Dakota from the Madison, Wisconsin office at Federal expense. The markets reported in these States are of regional or national significance, and therefore, a responsibility of the Federal Government.

MARKET NEWS REPORTS

Mr. **Whitten**. Were there any Market New Reports that were eliminated or consolidated in fiscal year 1985? If so, what were they and how many copies of each were generally distributed?

Mr. **Handley**. In 1985, the Colorado Onion and Potato Report was eliminated and subscribers were referred to either the National Onion and Potato Report issued out of Los Angeles or the Idaho Onion and Potato Report issued out of Idaho Falls, ID. Approximately 100 subscribers were taking the report. The Arizona, Colorado, Idaho and Washington Onion Summaries were consolidated into one summary. Approximately 250 copies were distributed. The elimination and consolidation of these two reports saved two clerical positions and supplies.

MARKET NEWS OFFICES

Mr. **Whitten**. Provide for the record a list of market news offices that were closed or merged in fiscal year 1985. Do you plan any closings for fiscal year 1986?

[The information follows:]

No offices were closed or merged in fiscal year 1985. However, for fiscal year 1986, we are considering that the States take over some Fruit and Vegetable Federal market news offices in Rochester, New York; Denver, Colorado; Boston, Massachusetts; and Weslaco, Texas.

MARKET NEWS DISSEMINATION

Mr. WHITTEN. Would you give us a status report on the pilot program between PBS and AMS?

Mr. HANDLEY. Experimental Dissemination of USDA Market News Information in Text Form via PBS Broadcasting involved five PBS stations and was completed in September 1984. As a result of this project, a substantial number of PBS stations are currently receiving our market news information via computers. Any farmer interested in receiving market news information from PBS must have a television with a decoder.

AGRICULTURE COMMODITY STANDARDS

Mr. WHITTEN. What new agriculture commodity standards were approved in fiscal year 1985? What commodities are currently under review and you expect action on during fiscal years 1986 and 1987?

Mr. HANDLEY. A tomato juice from concentrate standard and specifications for ground beef and dry buttermilk product were approved during fiscal year 1985. In addition, standards were revised during fiscal year 1985 for commodities such as canned sweetpotatoes, extracted honey, canned beets, canned carrots, tomato juice, canned clingstone peaches, greenhouse cucumbers, kiwifruit, Bermuda-Granex-Grano type onions, slaughter lambs, yearlings, and sheep, barrow and gilt carcasses, slaughter barrows and gilts, dry sweetcream buttermilk, and American pima cotton, and general standards for grades of dairy products.

Commodities being considered during fiscal years 1986 and 1987 include canned apple juice, frozen concentrated apple juice, canned pineapple juice, canned grape juice, frozen concentrated sweetened grape juice, canned green and wax beans, frozen leafy greens, frozen lima beans, frozen cauliflower, canned peaches, canned pears, pickles, canned pineapple, frozen peas, frozen pineapple, canned white potatoes, peeled potatoes, frozen hash brown potatoes, frozen french fried potatoes, papayas, pistachio nuts in the shell, pistachio nuts shelled, bunched spinach plants and bunched spinach leaves, horseradish, pineapple, seed potatoes, poultry roast, boneless poultry breast and thigh, consumer grades for ready-to-cook poultry carcasses and parts, poultry procurement grades, swiss cheese, emmentaler cheese, bulk American cheese for manufacturing, butter, certain types of flue-cured and fire-cured tobacco, and grade standards for upland cotton.

New standards for apple juice from concentrate, canned concentrated apple juice, concentrated apple juice for manufacturing, pineapple juice from concentrate, grape juice from concentrate, and frozen quick-cooking beans or peas are currently being considered for promulgation during fiscal years 1986 and 1987. In addition, grade standards for grease wool and wool top and for grease mohair and mohair top are under review.

USER FEES FOR STANDARDIZATION

Mr. Whitten. Please submit for the record a copy of your proposed user fee implementation plan for commodities standardization activities. Include with that the additional cost to the user.

[The information follows:]

The FY 1987 budget proposed that standardization activities be transferred to user fee. The costs of developing and maintaining commodity standards of quality and condition would be included in grading fees, since these standards are used in the grading and inspection of agricultural commodities. Seventy-five percent of standardization costs will be transferred to user fees. The remaining twenty-five percent of funds appropriated for standardization will allow continuation of governmentwide food quality assurance activities.

The following table lists the estimated fee increase for each commodity.

Commodity	Fee increase	Percent fee increase
Cotton	$0.06	5.4
Dairy	.49	2.6
Fruit and vegetable:		
Fresh products	2.51	6.6
Processed	.73	2.5
Livestock	1.01	3.7
Poultry	.27	1.4
Tobacco	.01	2.1

Grading fees would increase an average of 3.3 percent, with individual rate increases ranging from a low of 1.4 percent to a high of 6.6 percent.

DEPARTMENT OF DEFENSE FOOD DOCUMENT PROGRAM

Mr. Whitten. Describe the work AMS does in relation to the Department of Defense Food Document Program. What is your anticipated workload for fiscal year 1987 in this program?

Mr. Handley. Food specifications and Commercial Item Descriptions used by the Department of Defense, as well as other Federal agencies in their food purchasing programs are developed, coordinated, and approved by AMS. Fifteen documents are planned for revision, development, and coordination with DOD and other Federal agencies during fiscal year 1987.

We also coordinate documents used by DOD to procure military-unique rations. A substantial number of comments are provided to the originating agency to improve the overall quality of documents, to incorporate commercial practices, to highlight potential for cost savings in materials used, and, to simplify quality assurance procedures. Thirty military-unique documents are planned for coordination during fiscal year 1987.

COMMERCIAL ITEM DESCRIPTIONS

Mr. Whitten. What "commercial item descriptions" are proposed for revision in fiscal year 1986, and why are they proposed for revision?

Mr. Handley. Twenty-six Commercial Item Descriptions are now under development or revision. These documents are being prepared to replace outdated and complex Federal specifications, to update CID's developed three to five years ago, or to accommodate the purchase of new food items. These revisions will bring the documents more in line with commercial practice and provide descriptions for the purchase of newly developed commercial products. CID's planned for revision will be provided for the record.

[The information follows:]

CID'S THAT REPLACE OUTDATED AND COMPLEX FEDERAL SPECIFICATIONS

Canned Corned Beef
Frozen Fish Sticks, Fish Portions, Formed Fillets, and Fish Nuggets
Cottage Cheese
Canned Eggnog
Eggs and Egg Products
White Beans, Canned Beans (In Tomato Sauce, With or Without Meat or Meat Product)
Pickled, Cherry, and Jalapeno Peppers
Individual Reconstituted Packet Lemon Juice
Refined or Brown Beet or Cane Sugar
Canned Soups
Canned Corned Beef Hash
Tortilla Taco Shells
Mayonnaise and Salad Dressing

UPDATED CID'S DEVELOPED THREE TO FIVE YEARS AGO

Frankfurters
Milk and Milk Products
Fresh or Frozen Bread
Fresh or Frozen Rolls and Bread
Rolled Oats Cereals
Enriched Hominy Grits
Canned Puddings
Vegetable Salad Oils
Shortening Compounds
Black (Bags or Loose) Tea

CID'S TO ACCOMMODATE THE PURCHASE OF NEW FOOD ITEMS

Liquid and Frozen Egg Mix and Scrambled Egg Mix
Fresh or Frozen Muffins
Meatless Spagetti Sauce

WHOLESALE MARKET DEVELOPMENT PROJECTS

Mr. **WHITTEN**. Wholesale market activities underway in fiscal year 1986 include several major projects which include plans for a major new food distribution center in San Diego, California; assessing needs and alternatives to expanding and renovating the Connecticut Regional Market at Hartford and the Wholesale Farmers' Markets at Buffalo and Syracuse, New York. What will happen to these projects if you terminate the Wholesale Market Development Program as you propose? How much money has been spent to date on each of these projects and how much is needed to complete them?

Mr. **HANDLEY**. Each project is different in terms of objectives, scope, and stage of completion. Consequently, the effect of terminating the program will also be different in each case. However, a good deal of information will be available to decisionmakers as a result of the research and analysis completed by the end of the current fiscal year.

For San Diego, direct Federal costs through fiscal year 1986 will be approximately $250,000, not counting the value of inputs provided by local cooperators. Most major research elements will be completed by year-end. However, past experiences suggest that significant technical assistance will be required if study findings and recommendations are to be implemented. Additional direct Federal costs of approximately $50,000 per year over the next two to three years would be required to provide such assistance during the development of a major food distribution center to serve the Greater San Diego region.

Direct Federal expenditures for the Connecticut Regional Market—Hartford—project will be approximately $65,000 through fiscal year 1986. While the data collection and analysis phases are completed and preliminary recommendations have been formulated, additional design work and cost benefit analysis will be required. Approximately $25,000 would be required to complete this project in fiscal year 1987.

Federal costs for the Buffalo and Syracuse projects through fiscal year 1986 will be approximately $100,000 each. Significant additional research and technical assistance will be required to complete these projects. A total of approximately $100,000 would be required for fiscal year 1987, with smaller amounts for technical assistance and follow-up in succeeding years to complete these projects.

PAYMENTS TO STATES PROJECTS

Mr. WHITTEN. Several projects funded through the Payments to States Program in fiscal year 1985 had just begun. Have talks taken place with States to determine their ability to complete these projects if the program is terminated?

Mr. HANDLEY. Most Federal-State Marketing Improvement Program projects are funded one year at a time, although funds are committed over two-year periods. Among the grants made in fiscal year 1985, nearly all of the 16 projects in 14 States were funded for one year. It is anticipated that adequate arrangements for project completion can be made in the event of program termination. However, at this point no discussions with the States have occurred.

PAYMENTS TO STATES CONTRACTS

Mr. WHITTEN. What plans do you have or what contracts have you signed in relation to the funds provided by Congress for fiscal year 1986 for the Payment to States Program?

Mr. HANDLEY. Fiscal year 1986 funds have been committed for three projects to date, totalling $160,245 out of $942,000 available. They include a 5-State Upper Mississippi Transportation Economics Study and projects in South Carolina on predicting peach supply and developing and testing standards for Eastern peach maturity. Additional proposal evaluations are underway and we expect to commit the remaining funds within the next two months.

EGG PRODUCTS INSPECTION PROPOSED LEGISLATION

Mr. WHITTEN. We understand that the proposed legislation for egg inspection includes language "to strengthen USDA authority to withdraw inspection or refuse to provide inspection services."

Under what circumstances would you feel it necessary to have and use this authority? Who opposes this change in language and what arguments do they have against it?

Mr. **Handley**. The egg products industry is, as a whole, responsible, properly managed, and concerned about complying with Federal inspection requirements. USDA has learned over the years, however, that a small percentage of the industry cannot or will not consistently operate within acceptable bounds. A number of legal authorities are available to USDA to deal with violations, including criminal actions against individuals and business units, prosecutions for felonies and misdemeanors, and actions against products, condemnations, detentions, and judicial seizures. USDA may also seek civil injunctions to restrain certain kinds of violations of the law. However, USDA officials have long recognized that refusal or withdrawal of inspection service, which basically precludes a plant from operating, is the most effective sanction that can be imposed. It serves as a strong deterrent because it is the only penalty that dwarfs the enormous profits that can be reaped from illegal activities.

Current law authorizes the Secretary to refuse to provide, or withdraw, inspection service from a plant when responsible officials connected with it have been convicted of certain crimes. However, the Secretary cannot act until such persons have had an opportunity for an administrative hearing and judicial review. Years may pass before these proceedings are completed.

In addition, inspection can be withheld if a plant fails to destroy condemned products or if a plant fails to maintain sanitary conditions. These suspensions are usually very short term, however, since operations resume once the deficiencies have been corrected. Further, regulations provide that if a plant employee or agent is responsible for assaulting, threatening, or interfering with an inspector in the performance of official duties inspection may be temporarily suspended until the plant takes acceptable, effective measures to preclude a recurrence. However, there is no specific authority in the Egg Products Inspection Act for a withdrawal of inspection for such actions.

EGG PRODUCTS INSPECTION ACT

Mr. **Whitten**. The Egg Products Inspection Act requires control of the disposition of "restricted eggs." Please describe this term.

Mr. **Handley**. The term "restricted egg" means any eggs which are cracked, dirty, incubator rejects, leaking, or inedible.

EPI USER FEE IMPLEMENTATION PLAN

Mr. **Whitten**. Please submit for the record a copy of your proposed user-fee implementation plan to fully fund inspection and surveillance services.

[The information follows:]

User-Fee Implementation Plan—Egg Products Inspection Act Programs

BACKGROUND

The Egg Products Inspection Act authorizes and directs USDA to provide continuous inspection in plants processing liquid, frozen, and dried egg products. Additionally, it requires USDA to inspect shell egg grading plants and hatcheries at least each calendar quarter to determine compliance with the provisions of the Act. USDA's Agricultural Marketing Service (AMS) is responsible for providing these inspection services. Currently, the costs associated with operating these programs are borne by the Federal Government.

CONSIDERATIONS AND OPTIONS

Implementation of a user-fee program would require that inspection costs be charged to 102 egg breaking plants, approximately 2,100 shell egg packers, and about 570 hatcheries. Three options have been studied for recovering these costs of inspection. They are as follows:

1. Charge based on pounds inspected (egg products) or cases graded (surveillance).
2. Charge based on inspection hours worked in each plant.
3. Charge a flat rate on a per-plant basis.

In assessing these options, our goal has been to equitably charge large and small plants while attempting to minimize extra recordkeeping on the part of the affected industry and extra administrative costs for billing and collection.

ANALYSIS

Last fiscal year, 1.3 billion pounds of egg products were inspected by USDA in egg breaking and drying plants at a cost of $6.8 million. This equates to about $.0052 per pound. Charging on this basis, the range in cost per plant varies dramatically—about $300 per year for a small plant to over $300,000 for a large plant. Distributing costs strictly on a per-plant-inspected basis would result in an average cost per plant of approximately $67,000 per year and would add over $1 per pound to the cost of producing egg products in a small plant versus only $.001 to the cost in a large plant. Charging an hourly inspection rate of about $30 would have a similar impact, but not as dramatic because of inspection efficiencies obtained in large plants.

Regarding the shell egg surveillance program, shell egg grading plants and hatcheries are inspected each calendar quarter with additional followup visits to firms found to have compliance problems. Spot-check inspections are made to about 1,000 egg handlers who distribute or otherwise handle eggs but do not actually grade them. The cost for the shell egg surveillance program is about $2.5 million.

Shell egg packers and hatcheries would necessarily be the collection point under a user-fee program. Inspection costs for followup visits, etc., would be considered a part of overhead. The same problems of equity and administrative burden in establishing fees exist here as they do in the case of egg products inspection. The average cost per shell egg plant and hatchery would be about $936. Under this system of charging, the inspection cost for a very small plant would be $.47 per 30-dozen case, while the cost for an extremely large plant would be $.00026 per case. If fees were established on a per-case basis, the average cost per case would be about $.011. Using this approach, small plants would pay about $22 per year and very large plants aout $39,600. Because the difficulty of figuring travel time and associated travel costs and uniformity of application, an hourly inspection rate was not calculated for this program.

CONCLUSIONS

The most equitable method of charging for egg products inspection appears to be a combination fee for hourly inspection coverage coupled with an additional assessment for each pound of product inspected. A minimum and maximum total charge for inspection services on a per-plant basis would also be established. Despite these efforts to achieve equitability, the cost will likely result in some extremely small egg products plants having to cease operations.

For the shell egg surveillance program, a similar combination charge for average inspection costs per plant plus an additional assessment for volume (cases) of shell eggs handled seems to be the most equitable approach. Here again, a minimum and maximum charge would be established.

Since current law requires that USDA collect for overtime and holidays worked in egg products processing plants, a system is already in place to collect user fees from these establishments without substantial impact on our administrative workload.

Conversely, collecting fees from shell egg handlers and hatcheries will increase our workload considerably since new accounts and billings will have to be established for each.

FEDERAL SEED ACT AGREEMENT

Mr. WHITTEN. Please provide for the record a copy of one of your Federal Seed Act cooperative agreements that is currently in use.

[The information follows:]

JUN 18 1984

COOPERATIVE AGREEMENT
between
AGRICULTURAL MARKETING SERVICE
and
MARYLAND DEPARTMENT OF AGRICULTURE

12-25A-2588
Rev. 1

NAME OF PROJECT................Cooperative Activities under Seed Laws.

LEADERS........................Chief, Seed Branch, Agricultural Marketing Service, United States Department of Agriculture (hereinafter called the Federal Agency), and the Maryland Department of Agriculture

(hereinafter called the Cooperating Agency).

LOCATION.......................Maryland.

DATE EFFECTIVE.................July 1, 1984.

LEGAL AUTHORITY................Federal Seed Act of August 9, 1939 (7 U.S.C. 1551-1610), as amended, and applicable laws of the Cooperating Agency.

OBJECT.........................To administer the provisions of the Federal Seed Act involving shipments of seed into the State of the Cooperating Agency, and advertising pertaining to seed in interstate commerce.

ORGANIZATION...................The organization for carrying on this work shall consist of the leaders designated above, and such authorized representatives as are needed to carry out the work.

METHOD OF PROCEDURE
Part I
Federal Agency.................(a) will have general supervision over all enforcement activities conducted under this agreement.

(b) will authorize designated officials of the Cooperating Agency, if qualified and mutually acceptable, to draw samples, secure information and records, and otherwise inspect seeds subject to the Federal Seed Act, within the State of the Cooperating Agency.

(c) will, when necessary and desirable, assist the Cooperating Agency in adopting such procedure in its inspection work as will tend to provide evidence acceptable under the Federal Seed Act of violations of irregularities.

METHOD OF PROCEDURE

Part I

Federal Agency (Continued)......(d) will reserve the right to make further investigations when deemed necessary within the State of the Cooperating Agency and will undertake the responsibility of any investigation required at the points from which shipments were made.

(e) will issue written notices or warnings to persons involved in minor violations of the Act when such action seems adequate.

(f) will initiate any required proceedings under the Act or the regulations that appear to be warranted following investigation.

(g) will, insofar as facilities permit, make tests on samples of seed submitted by the Cooperating Agency for the purpose of standardizing methods of testing seeds.

Part II

Cooperating Agency..............(a) will draw and inspect samples of seed, subject to the Federal Seed Act within its State.

(b) will submit to the designated official of the Federal Agency samples which represent shipments of seed believed to be subject to and in violation of the Act together with available records pertaining thereto; and other information or records indicating that the Act has been or is being violated.

Part III

Mutual Agreements..............It is mutually understood and agreed:

(a) that the activities contemplated under this agreement will be conducted in accordance with the Federal Seed Act and the rules and regulations thereunder, supplemented by such instructions as may be issued by the Federal Agency.

(b) that the Federal Agency may request the Cooperating Agency to perform certain other duties under this agreement. A supplemental statement in writing outlining the specific conditions for each request will be mutually agreed upon between the Cooperating Agency and the Chief, Seed Branch, Agricultural Marketing Service, prior to the performance of such work.

Part III

Mutual Agreements (Continued)...(c) that no official of the Cooperating Agency will be expected to proceed beyond the boundaries of its State for the purpose of routine investigations.

(d) that the initiation of any formal proceeding under the Act or the regulations will be under taken only by the Federal Agency at Washington D.C.

(e) that unless a supplemental statement to this agreement is entered into this document does not constitute a financial obligation to serve as a basis for expenditures. Each agency will handle and expend its own funds. Any and all expenditures from Federal funds in the Department of Agriculture made in conformity with the plans outlined in this agreement must be in accord with Department rules and regulations, and in each instance based upon appropriate finance papers. Expenditures made by the Cooperating Agency will be in accord with its rules and regulations. Supplemental statements issued under this agreement will provide the basis for any reimbursement to Cooperating Agency by the Federal Agency, as outlined in each supplement.

(f) that the responsibilities assumed by the parties hereto under this agreement are contingent upon funds being available from which expenditures legally may be met.

DURATION......... ....This agreement shall continue in force indefinitely and shall be reconfirmed annually. It may be amended or supplemented at any time by mutual agreement of the parties in writing. It may be terminated any time by mutual consent or by either party hereto by giving written notice to the other party, and specifying the date of termination. Supplemental agreements between the Agricultural Marketing Service, and the Cooperating Agency made under this agreement shall be limited to the fiscal year in which the work is performed.

Maryland Department of Agriculture

Deputy Administrator
Program Operations
Agricultural Marketing Service

ELIMINATION OF FEDERAL SEED ACT

Mr. **Whitten**. Have you had any discussions with States concerning your proposal to eliminate activities related to the Federal Seed Act?

Mr. **Handley**. We have had no discussions with the States about the proposal to eliminate the Federal Seed Act. We have, however, had discussions with the American Seed Trade Association and they support our proposal to eliminate the activity.

FEDERAL SEED ACT CASES

Mr. **Whitten**. During 1982, 1983, and 1984, AMS investigated an average of 2,341 cases relating to the Federal Seed Act. In 1985, the cases investigated dropped to 1,308. To what do you attribute this significant change, and why do you estimate only 400 cases will be investigated in fiscal year 1987?

Mr. **Handley**. The significant reduction from 1982 through 1985 in complaints of apparent Federal Seed Act violations for AMS investigation is due to several factors as follows:

The enormous backlog of cases was reduced by a change in investigative procedures. Travel to seed firms for physical examination of transaction records has been changed primarily to mailed requests for copies of pertinent records. Although voluntary, response to mail requests for records by industry has generally been very good.

In 1982, due to the dramatic staff and office reduction and or consolidation, state cooperators began screening apparent FSA violations and referring only the most serious to AMS for investigation.

Office computerization and automation has helped to expedite case work making investigation more timely, meaningful, efficient and effective.

The estimate of 400 cases in fiscal year 1987 is due to proposed elimination of the program. Every effort will be made to complete all the outstanding cases in FY 1986, however we do anticipate that approximately 400 cases will remain. Funds requested for shutdown of the program should cover costs of completing the cases.

MOTOR VEHICLES

Mr. **Whitten**. The fiscal year 1987 request includes replacement of 25 of the 56 vehicles AMS now has in operation. This is a 45 percent replacement in a single year. Please explain your vehicle replacement policy, and why 25 vehicles fall under that replacement category in a single year.

Mr. **Handley**. AMS purchases vehicles when program activities require their full-time use such that costs are lower than rental or reimbursement for private vehicles. These vehicles may be replaced when they are over six years old or when they have been driven more than 60,000 miles. Twenty-five vehicles are expected to meet this criteria in FY 1987. Twenty of the twenty-five vehicles expected to be replaced are utilized by the tobacco grading program and were purchased in FY 1984 when legislation was passed which required the inspection of imported tobacco. AMS vehicles are used by tobacco graders who travel between warehouses to perform their daily duties and who move between regions when the tobacco crop season changes. In addition, these graders drive from their official stations to ports of entry to inspect imported tobacco. Therefore, these vehicles rapidly accrue high mileage and must be replaced within a few years. The remainder of the vehicles are used by the cotton grading program and are due for normal replacement.

PAYMENTS TO STATES OBLIGATIONS

Mr. WHITTEN. Please provide a five-year breakdown of obligations by geographic area for the payments to states and possessions program.

[The information follows:]

PAYMENTS TO STATES AND POSSESSIONS OBLIGATIONS BY GEOGRAPHIC AREA, FISCAL YEARS 1981-85

State	1981	1982	1983	1984	1985
Alabama	$23,000	$23,000			
Alaska			$28,995		
Arkansas		11,000			
California		5,970	100,605		
Colorado	32,000	85,025			$105,000
Connecticut		33,500	21,665	$55,000	
Florida			67,720		121,385
Georgia	1,000			50,000	
Guam				40,000	
Hawaii		146,000	34,500		
Idaho	27,060		45,000		
Illinois	176,213	2,500	50,000	142,500	
Indiana	2,000	42,915	55,000		
Iowa				100,000	73,468
Kansas		25,255	8,800	5,500	
Kentucky		35,000			
Maine		32,000	67,000	38,000	32,000
Maryland	40,650				
Massachusetts	40,000	50,000	40,000		50,000
Minnesota	56,707	79,025			
Mississippi	25,000			75,000	75,000
Missouri	16,125	14,069	40,000	66,390	
Montana	60,000				63,800
New Jersey	52,808	26,500		77,800	44,323
New Mexico	36,988	48,167			
New York	137,385		56,300		66,466
North Carolina			26,000		
North Dakota	91,000	19,374	40,000	86,600	67,400
Ohio	242,500	25,000			
Oklahoma	35,144		75,000	15,000	80,578
Oregon	12,000				
Pennsylvania		25,000			
Puerto Rico	16,000				
South Carolina	42,324	200,000		125,735	
Tennessee	30,000	30,000			
Texas	198,200		55,500		35,000
Utah			62,215	44,475	
Vermont	15,196				
Virginia	165,700	15,000	125,700		96,128
Washington	25,000	25,700		78,000	75,000
Total	1,600,000	1,000,000	1,000,000	1,000,000	985,548

Mr. WHITTEN. Mrs. Smith?

Mrs. SMITH. Welcome, Mr. Handley, and all of you. What efforts are you taking to ensure that the quality of service would be maintained if you get the user fee system?

Mr. HANDLEY. We are confident, Mrs. Smith, that with the record we have on user fee programs, the quality of service would be maintained. The industry has seen the benefit of our grading and inspection services. And we believe they will continue to use our services under a user fee concept.

PROMOTION OF EXPORTS

Mrs. SMITH. Well, now what new efforts are you intending to take to promote exports? And how soon will you be getting these underway?

Mr. HANDLEY. We are not directly involved with the export activities of the Department of Agriculture, Mrs. Smith. The Foreign Agricultural Service takes the lead in that, and we provide support where we can. And naturally, we stand ready to provide any technical expertise that we can to enhance those trade activities.

FY 1987 PROPOSED PROGRAM ELIMINATIONS

Mrs. SMITH. Now just one more question. Will the states be able to withstand the added burden that is placed on them if the Wholesale Market Development, Payments to States and Possessions, and Federal Seed Act programs are not continued?

Mr. HANDLEY. With the Wholesale Market Development Program, Mrs. Smith, we have for a long time felt that the expertise to set up wholesale markets exist in places other than just USDA. We have worked with states for a number of years now, and there are many projects already in operation that they can draw expertise from in setting up other programs.

In the Federal Seed Program, all 50 states currently have a seed act of their own. We serve as a referee, if you will, for any interstate disputes. We feel these liaison efforts could be eliminated, and a mechanism set up between the states to address these differences.

Mrs. SMITH. I see.

PROPOSED ELIMINATION OF THE FEDERAL SEED ACT

Mr. WHITTEN. Let me interrupt. What do you base that belief on?

Mr. HANDLEY. Well, most states have pretty good working relationships with other states. As a result, I think they would be able to regulate interstate seed commerce.

Mr. WHITTEN. What makes you think that?

Mr. HANDLEY. It is just my impression.

However, I would say that we could still serve as a referee in the process, but we would not necessarily have to have a whole program in place to provide that service.

Mr. WHITTEN. Well, what if the states are in as bad a financial shape as you are and they have an office of budget and management?

Mr. HANDLEY. The states have known for quite some time that we have been considering this.

Mr. WHITTEN. It must depend on more than knowledge. You said, they have known about it. What plans have they made to take it over?

Mr. HANDLEY. As I mentioned, all 50 states already have their own programs in place to regulate seed commerce.

Mr. WHITTEN. Are you thinking we should divide this up like we had under the Articles of Confederation, where each state had to look after its own affairs? Is that what the President is recommending?

Mr. HANDLEY. Elimination of the program was the agency's recommendation and the Administration concurred with this proposal. We feel that the states should have responsibility for regulating seed commerce.

Mr. WHITTEN. For the record, please put in the record how you would absorb this $26 million—in detail. The reason for that, we need that information when we go to the House floor.

Mr. HANDLEY. Yes sir, we would be pleased to do that. One further point I would like to mention, on the question on the Federal Seed Program is that the industry supports our initiative.

[The information follows:]

The program funding needed to be restored if no user fee legislation is passed and no program eliminations are made consists of a total increase of $32.434 million and 39 staff years for Marketing Services, an increase of $984 thousand for Payments to States, and an increase of $7.147 million and 19 staff-years under Section 32 Administrative Fund for Marketing Agreements and Orders. In Marketing Service the $32.434 million consists of a current law request of $4.343 million; restoring wholesale market development to $1.569 million and the Federal Seed Act program to $1.008 million, of which both were proposed for elimination; and restoring funding under current legislation of $15.029 million for market news, $3.257 million for commodity standards, $31 thousand for the Export Fruit Acts, $9.356 million for egg products inspection and $677 thousands for market development and assistance; an increase of $95 thousand to restore proposed A-76 and other management initiatives; and a reduction of $2.931 million for start-up and close-out costs. Section 32 Administrative Funds for Marketing Agreements and Orders consists of a current request of $336,000, an increase of $6,273,000 to maintain current operations of the marketing agreements and orders program, $874,000 and 19 staff-years for the marketing agreements and orders program to implement the provisions of P.L. 99-198, and a reduction of $336,000 for start-up costs.

Mr. WHITTEN. What corporations comprise the industry? Name the corporations involved.

Mr. HANDLEY. I cannot name individual companies, Mr. Chairman.

Mr. WHITTEN. The whole industry, that is a big thing.

Mr. HANDLEY. No, not the whole industry.

Mr. WHITTEN. Certainly you could name some.

Mr. HANDLEY. Several associations concur with our proposal.

Mr. WHITTEN. Well, what is the name of the association who heads it?

Mr. HANDLEY. One which I recall is the American Seed Trade Association.

Mr. **Whitten**. You mean you all put restrictions on them, and if they get out from under you, they would be glad to have the states do it?

Mr. **Handley**. No, that is not the point.

Mr. **Whitten**. What is your relationship with the seed business that causes the association to be willing to trade you off for states?

Mr. **Handley**. The seed industry recognizes that the program no longer serves the function that it did years ago when the Act was passed.

Mr. **Whitten**. You mean you have been doing a sorry job, is that the reason?

Mr. **Handley**. No, I do not think that is the point.

Mr. **Whitten**. You just said it no longer serves the function.

Mr. **Handley**. The point I meant is that the seed industry recognizes that all 50 states have their own program and are capable of adequately enforcing seed laws. As a result, we may just be another layer on top of that.

You know, the Federal government is not immune from the idea of layering. There has been a degree of that over the years.

Mr. **Whitten**. There are not many folks who confess it like you do.

Mr. **Handley**. Well, we would not be proposing the elimination of the program if we did not feel that the states could handle it.

Mr. **Whitten**. But you got to where you are doing nothing or doing too little, so you can spare certain people.

Mr. **Handley**. Pardon me?

Mr. **Whitten**. How many people in your organization do you have that you can spare because they really are not contributing anything, where the states could do it?

Mr. **Handley**. In this case, there would be 22 affected by the elimination of the Federal seed program.

Mr. **Whitten**. Are they aware that they would be eliminated?

Mr. **Handley**. Yes, sir, they are aware of that. However, we would try to provide these employees with other jobs whenever possible.

Mr. **Whitten**. You cannot get them in the military, can you?

Mr. **Handley**. Pardon me?

Mr. **Whitten**. The military is the place to go, or foreign aid. That is where the money is. They are cutting you, that is where OMB is giving this money. You cannot get them to take the people along with the money, can you?

Mr. **Handley**. I have not considered that approach.

Mr. **Whitten**. But you would recommend them, would you not?

Mr. **Handley**. Yes, I would.

Mr. **Whitten**. Mr Watkins has some questions he would like answered for the record.

ELECTRONIC GRAIN MARKETING STUDY

Mr. **Watkins**. What is the status of a study on electronic grain marketing at Oklahoma State University?

Response. This study was funded under the Federal-State Marketing Improvement Program (FSMIP) in FY 1985. Computer software for electronic grain marketing has been developed and presented to a group of grain brokers. An action committee of grain users, suppliers, traders, trade associations, and legal counsel has been formed to implement the system.

Mr. **Watkins**. Based on evidence obtained so far, would you define this study as a success and a marketing tool that can be adapted into the marketplace?

Response. The study has been a success. Oklahoma State University has provided a solid framework for a grain marketing system and has stimulated industry interest. However, industry members must now organize the system, recruit participants, and adapt it to the marketplace. A meeting of industry representatives is scheduled during the last week of March to address the first stage of implementation.

Mr. **Watkins**. How soon will this new marketing tool be adapted into the marketplace?

Response. The electronic system must first be adapted by a few buyers and sellers and then industry acceptance should follow. The timeframe of adaptation will become clearer when the initial program is implemented.

Mr. **Watkins**. How do you envision this tool becoming a part of marketing grain?

Response. Primarily, this system will provide the exchange of more information, and move this information quickly between buyers and sellers. Once industry confidence is gained, the system will likely expand to include more and larger participants with a substantial industry-wide gain in marketing efficiency.

Mr. **Watkins**. How will this tool affect trading of grain in the international marketplace

Response. The availability of greater and faster market information would provide at least equal benefit to traders in the international marketplace. Additionally, it would have the potential for bringing together small suppliers to meet the large scale requirements to international buyers.

OTHER ELECTRONIC MARKETING STUDIES

Mr. **Watkins**. Are electronic studies for other agricultural products being pursued at this point?

Response. Other electronic studies being conducted include trading in livestock, fruits and vegetables, poultry, eggs, and peanuts.

ELECTRONIC MARKETING OF LIVESTOCK

Mr. **Watkins**. Would the study of electronic marketing of livestock fit into the scheme of marketing studies that AMS is pursuing?

Response. AMS has funded a study of electronic marketing of livestock in past years through the Federal-State Marketing Improvement Program. A FSMIP project with Virginia in 1983 and 1984 was funded to develop an electronic trading system for slaughter lambs. This project was successful and was taken over by the National Livestock Producers Association. The system in currently operating and has been expanded to include hogs in Michigan.

Mr. **Watkins**. Could this technology work with purebred stock as well as commercial livestock?

Response. While the scale might be small, large breeders would likely be interested in a system which expands their information base and makes information more readily available. Frozen semen might also be of interest to this group and a project on this product is underway at Oklahoma State University.

Mr. **Watkins**. Could this technology assist foreign livestock buyers in their pursuit to find purebreds for export to their country?

If an application for developing an electronic livestock foreign marketing system were submitted I would ask that AMS consider this project in light of the success of the grain marketing study at Oklahoma State University. This appears to be another opportunity to assist our cattlemen in broadening their base of sales to the international market.

Response. This technology would be of equal value to foreign buyers.

Mr. **Watkins**. What role do you see electronic marketing playing for the future of agricultural products?

Response. The success of electronic marketing in more commodity sectors, combined with the increasingly common use of computers by farmer and other marketers, suggests a major role for this technology in increasing marketing efficiency of agricultural product.

AQUACULTURE MARKETING STUDIES

Mr. **Watkins**. As I understand, marketing studies have been pursued in the area of aquaculture. Where have the studies been conducted and to what extent was information gathered on these studies?

Response. A catfish handling and marketing project was carried out in Mississippi in 1981 under FSMIP program funding. Two research reports identified expansion potential for fresh and frozen catfish, identified the need for more consumer education, and cited several other market developments needed for industry growth.

Mr. Watkins. Did the studies include research on the domestic and international market? If international marketing was not included can that be part of a study?

Response. The study was limited to domestic considerations. However, future efforts could incorporate evaluation of international application, particularly for frozen or other processed products.

Mr. Watkins. As I understand, AMS has plans to conduct a study in Oklahoma that has been pending for some time. What is the status of the study and when does AMS plan to begin work on the project?

Response. A study of catfish marketing in Southeastern Oklahoma is underway, with work being conducted by a research team. Data are being prepared for a meeting in late March to discuss the possibilities of "harvesting" catfish. We anticipate that our contribution to the project will involve defining methods and facilities for handling, processing, and distributing the product, as well as a wholesaler survey.

Mr. Watkins. If contacted by other public bodies with an interest in conducting a similar study, could AMS be open to doing further study on aquaculture marketing research?

Response. After publication, the results of the Oklahoma study could also be used by other groups. AMS would be open to doing further study should a proposal be submitted.

FRUIT AND VEGETABLE STUDIES

Mr. Watkins. What is the status of fruit and vegetable maketing studies being conducted in Oklahoma?

Response. The results of market opportunity analyses (comparing production costs, packaging, handling, transporting and other related selling costs to average market price to estimate the opportunity to make a profit) for five vegetables were presented to the managers of the Three River Produce Cooperative and the Director of the Red Ark Development Authority in late February. The analyses were for growing and marketing cantaloupes, cucumbers, squash, eggplant, and sweet corn. Asparagus and broccoli are now being analyzed for the area. Subsequently we plan to move to the product information phase of the project, to be completed by the end of 1986.

Mr. Watkins. As I understand, AMS has done extensive studies on a limited number of vegetables in the study. If further study is needed on other vegetables could AMS do a complete analysis on these also?

Response. Additional analyses could be performed, depending in part on the success of the initial work and the availability of personnel and resources.

Mr. Whitten. Thank you very much.

Mr. Handley. Thank you, Mr. Chairman.

[Mr. Handley's prepared statement follows:]

AGRICULTURAL MARKETING SERVICE

Statement of
James C. Handley, Administrator
before the
House Subcommittee on Agriculture,
Rural Development and Related Agencies

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the programs of the Agricultural Marketing Service (AMS) and our budget proposal for fiscal year 1987. I have with me our Deputy Administrator for Marketing Programs, William T. Manley; our Deputy Administrator for Commodity Services, Eddie F. Kimbrell; our Deputy Administrator for Management, John T. Reeves; and our Financial Management Division Director, Joseph A. Roeder. They are prepared to respond to any technical questions that may arise.

My first year as Administrator of AMS has been an exciting and challenging one. I have had an opportunity to work closely with industry, Congress, and the general public and learn first-hand the importance of the services provided by AMS. Our programs provide the basic building blocks for efficient marketing of agricultural commodities. Thousands of people in the marketing chain rely on our services to move food and other farm products quickly, efficiently, and fairly throughout the country.

In this last year we have achieved many noteworthy accomplishments. For example, AMS developed, implemented, and successfully administered new programs such as the Imported Tobacco Inspection Program and oversight of the National Dairy Research and Promotion Program.

We also made significant progress in our effort to introduce advanced technology into our programs. We are now utilizing satellite communication to disseminate market news information throughout the country. We have also expanded the use of computers in the field to assist, expedite and provide more accuracy in our grading and classing activities. We are continuing automation efforts both at headquarters and in the field to facilitate program delivery and enhance management of our activities.

While the past year has been rewarding, the upcoming year will be a greater challenge as we begin developing programs in response to provisions in the 1985 Farm Bill and the Deficit Reduction Act.

I firmly believe that AMS programs are some of the most effective in USDA. However, regardless of their effectiveness, the nation's growing national debt requires each of us to take a hard look at all of our programs and services. During the budget review process, we thoroughly examined each activity to determine if any could be streamlined, curtailed, or even eliminated without crippling the private marketing system we service. Because of the unique nature of our services, we first looked for programs to reduce or eliminate which could be provided by another source or be charged directly to the people who receive the primary benefit of the program. In FY 1987, we hope to eliminate programs costing $3.6 million and transfer an additional $34.6 million in funding from appropriations to user fees.

DEFICIT REDUCTION ACT REDUCTIONS

We applaud Congress' resolve to enact legislation requiring a balanced budget and we support and are willing to make the sacrifices necessary to help achieve this worthwhile goal.

It is our hope that agreement on specific appropriation reductions can be reached to prevent the triggering of across-the-board reductions. Within AMS, as throughout government, we would prefer having the flexibility to target our appropriation reductions rather than dissipating programs which we feel are more essential.

We are concerned that recent legislation requiring across-the-board reductions will also curtail services in user funded and reimbursable programs while effecting no reduction in the Federal deficit. Our cotton classing, dairy grading, fresh and processed fruit and vegetable grading, meat and livestock grading, poultry and egg grading, seed inspection, tobacco inspection, and Perishable Agricultural Commodities Act licensing programs are entirely fee supported. In addition, our reimbursable activities, such as egg products inspection overtime and oversight of the various research and promotion programs, are also entirely fee supported. Revenue generated from these voluntary fee-for-service programs offset any expenditures incurred in providing these services. Consequently, sequestering obligations in these programs will result in corresponding decreases in revenue and denial of services which industry is willing to pay for. This will create havoc not only in the domestic market but also on our exports.

Prior to discussing the specifics of our fiscal year 1987 budget proposals and deficit reduction efforts, I would like to briefly discuss our agency programs.

AMS' PURPOSE AND ACTIVITIES

Within AMS we administer 35 statutes, each of which was enacted to promote orderly and efficient marketing and effective distribution of products from the nation's farms to consumers. We achieve these goals through programs which enhance producer returns, promote market efficiencies, and assure consumers of quality products.

We administer a Market News Program which provides timely information on various agricultural commodities. Supply and demand information, data on changing market conditions and other pertinent information is disseminated locally as well as nationally to enhance competition and aid purchase and sale decisions.

We develop commodity grade standards which reflect the primary characteristics of agricultural commodities. These standards are applied in our voluntary grading services and provide an impartial appraisal of the quality of the product being sold. Once a grade has been assigned, transactions can occur without either party having visually inspected the product.

We administer numerous regulatory activities through our Market Protection and Promotion Program (MPP). Under the MPP, we enforce the Federal Seed Act, a truth-in-labeling law which regulates interstate commerce of agricultural and vegetable seeds; we enforce the Plant Variety Protection Act by issuing patent-like certificates of protection to developers of new seed varieties; and we monitor industry research and promotion activities which are designed to stimulate domestic consumption and exports of specific agricultural commodities.

We also administer the Perishable Agricultural Commodities Act to ensure fair trade practices in the marketing of fresh and frozen fruits and vegetables. Without these regulatory programs, producers, handlers, and consumers would be unprotected from financial loss resulting from careless, deceptive, or fraudulent marketing practices.

We administer the Wholesale Market Development and the Payments to States Programs. Technical assistance and financial support is provided to cities to aid in moving agricultural products from the farm to the consumer.

We also administer fruit and vegetable and dairy marketing agreements and orders. These orders establish minimum prices farmers receive for milk and stabilize supplies and market prices for fruits and vegetables.

We also administer the Section 32 commodity purchase program. Commodities are purchased for FNS' domestic feeding programs and to remove surplus commodities from regular marketing channels.

USER FEES

Industry has noted the relative importance of our programs to their well being and is willing to support them through user fees, when required to do so by law. Seventy-three percent of our programs are fully supported by user fees.

Most of our programs are voluntary, yet demand for our services continues to be strong. Industry recognizes that our programs enhance trade, provide stability in the marketplace, bolster consumer confidence and increase returns to producers.

AMS is committed to the concept of user fees. We firmly believe that recipients of our services should bear the financial cost associated with providing that service. In accordance with this philosophy, over the past several years AMS has shifted the cost for many of its services from appropriations to user fees.

We intend to actively pursue the possibility of charging fees for many of the remaining appropriated activities we administer. If our fiscal year 1987 budget is approved and legislation enacted, AMS will be 95 percent fee supported within the next several years.

FISCAL RESPONSIBILITY OF A FEE FOR SERVICE AGENCY

The responsibility of a fee for service agency, such as ours, is unique. The voluntary nature of our services require that we respond quickly to our users' needs and make every effort to minimize costs. Without such a commitment industry would likely see no need for our services.

We maintain responsiveness to industry by keeping the lines of communication open between ourselves and the users of our services. Changes in consumer preference, agricultural engineering, food processing technology and practices of the food industry are evaluated constantly as the continued existence of AMS is dependent upon the usefulness of our service as well as its cost. In an effort to maintain and expand our lines of communication, we operate our programs in a cooperative effort with Advisory Committees made up of members from industry. Changes in policy or regulations are presented to the Committees for consideration. Their responses are carefully evaluated and considered before any final decisions are made.

The other essential objective we must adhere to in our voluntary programs is minimizing costs. Our success in this endeavor is readily apparent when one considers that in constant dollars, our fees have risen an average of only 3% a year since 1982 compared with an overall inflation rate of 4.5%. We have achieved this by keeping a prudent eye on program costs, increasing productivity and through automation efforts. Automation initiatives have ranged from the implementation of electronic communication between field offices and headquarters to reduce paperwork and speed up the flow of information, development of a high volume precision testing instrument to enhance cotton classing, to portable and hand held computers being tested by our livestock and dairy graders.

UPDATE ON RECENTLY IMPLEMENTED PROGRAMS

AMS established several new activities during the past two years. The Dairy and Tobacco Adjustment Act of 1983 authorized the establishment of a National Dairy Promotion and Research Program and an Imported Tobacco Inspection Program. The first full year of each of these programs has just been completed.

The National Dairy Promotion and Research Program was implemented within the timeframe established by legislation. Funding needed for this promotional effort was provided by a 15-cent per hundredweight assessment on each dairy producer. Continuation of the assessment to fund similar activities was approved in a referendum conducted during August 1985.

Approximately 287 million pounds of imported tobacco was inspected in fiscal year 1985. Data collected from these inspections is being used to help determine price supports that will make American tobacco more competitive with that produced in foreign countries.

NEW RESPONSIBILITIES

The 1985 Farm Bill which was recently enacted places additional responsibilities on AMS. Beef, Pork and Watermelon research and promotion programs were authorized by the Act and we expect proposed orders to be submitted to the Department for consideration shortly.

The Farm Bill also authorizes a whole herd dairy buyout program to reduce the production of milk. In conjunction with this effort, the Bill requires the purchase of 400 million pounds of red meat products for distribution in domestic and overseas markets. Although the specifics of this program are still being developed, the law requires that the commodity purchases be achieved over the next 18 months.

RECENT AUTOMATION EFFORTS

During the last year we made significant progress in improving the efficiency and timeliness of our services through automation efforts. For example, in December 1985, the dairy grading program initiated a pilot project designed to expedite the processing of dairy grading certificates. Hand-held computers are being used by the graders to electronically input information into a central computer and enable grading certificates to be typed automatically for distribution. If this project proves feasible, costs and document processing time will be reduced.

In the cotton classing program, a pilot project which allowed gins and grower agents to access cotton quality information via personal computers was undertaken. This project proved highly useful. As a result, the information service will be expanded to all 20 marketing services offices by the end of fiscal year 1986.

FISCAL YEAR 1987 APPROPRIATION REQUEST

Our fiscal year 1987 budget proposals continue our efforts to reduce government spending through the elimination of programs or through the imposition of user fees for services which provide special benefits to identifiable recipients.

We propose reducing our marketing services appropriation from $31.8 million to $4.3 million. In addition, appropriated funds needed to administer the Section 32 program would be reduced from $9.2 million to $3.3 million. Much of these proposed savings are contingent upon passage of user fee legislation.

Specific proposals requiring legislative changes include:

-- A $15 million reduction in the Market News Program. Legislation will be proposed which will allow user fees to be charged to recover the entire cost of collecting, analyzing and disseminating market news information;

-- A $9.4 million reduction for Egg Products Inspection. The proposed legislation will allow user fee assessments to recover the full cost of the program;

-- A $3.3 million reduction for Commodity Standards. Legislation will be proposed to enable fees to be charged for the costs associated with developing, reviewing or modifying standards;

-- A $31 thousand reduction for the Export Fruit Acts to allow full user fees to be charged for these inspection services;

-- A $700 thousand reduction in Market Development and Assistance. Costs associated with this program will also be recovered through user fees; and

-- A $6.3 million reduction in Section 32. The proposed legislation will require industry to reimburse AMS for the costs associated with administering marketing agreements and orders.

Reductions which can be achieved without enabling legislation include:

-- A $1.6 million reduction to eliminate the Wholesale Market Development Program;

-- A $1.0 million reduction to eliminate the Payments to States Program, and

-- A $1.0 million reduction to eliminate the Federal Seed Program. Legislation is being proposed to repeal this Act, however, the savings can be achieved without passage of legislation.

In conjunction with these proposals, one-time start-up and close-out costs of $2.9 million are being requested. These funds are necessary for each program proposed for termination or whose funding source is being shifted from appropriations to user fees. Resources are needed to fund leave liability, unemployment and workers' compensation and other accrued liabilities.

Once our fiscal year 1987 budget proposals are implemented, the percentage of user fee funding within the agency will increase from 73 percent to 95 percent.

We take pride in the fact we are a service oriented agency. As I have mentioned the continued existence of AMS is predicated on the usefulness and cost of our service. We believe we have managed our programs well and this is borne out by industry's requests for our services.

We are hopeful that Congress will review the impact on user fee activities of any across-the-board reductions which may be necessary in the upcoming years. Unless a revision is made in the current sequestration process, those user fee legislative proposals included in our fiscal year 1987 budget would continue to be subject to the sequester process and still would not reduce net spending or the deficit.

FUTURE DIRECTIONS

In my opinion, AMS can look forward optimistically because the industries it serves remain confident the Agency can provide the desired services and meet the challenge of change. Close cooperation with all levels of the agricultural industry, continuing automation, increasing the commitment to user fees, responsiveness to the needs of the users of our services and cost control in our programs will be our immediate priorities.

It is clear to us that the continued delivery of the high quality service that industry and the public have come to expect, in light of increased pressure to cut budgets, will be the greatest task we face. However, I believe AMS is up to the challenge and I am confident that this Agency will continue to be the superb performer it has always been.

At this point, I will conclude my testimony. My colleagues and I are available to answer any questions which you may have.

AGRICULTURAL MARKETING SERVICE

Purpose Statement

The Agricultural Marketing Service (AMS) was established by the Secretary of Agriculture on April 2, 1972, under the authority of the Reorganization Plan No. 2 of 1953 and other authorities. AMS carries out programs authorized by some 33 different statutory authorities, the primary ones being the Agricultural Marketing Act of 1946 (7 U.S.C. 1621-1627); the U.S. Cotton Standards Act (7 U.S.C. 51-65); the Cotton Statistics and Estimates Act (7 U.S.C. 471-476); the Tobacco Inspection Act (7 U.S.C. 511-511q); the Perishable Agricultural Commodities Act (7 U.S.C. 499a-499s); the Egg Products Inspection Act (21 U.S.C. 1031-1056); and Section 32 (15 U.S.C. 713c).

The primary objective of AMS is to enhance the marketing and distribution of agricultural products from the nation's farms. This is achieved through the collection and dissemination of market news information, the establishment of standards, inspection and grading services, and various marketing development programs. Approximately three-fourths of the funds needed to finance these activities are derived from user fees.

The Agricultural Marketing Service administers the following programs:

1. Market news service: The market news program entails the collection, analysis and dissemination of supply, inventories, prices and other market information for numerous food and non-food agricultural commodities including cotton and cottonseed; dairy products; fruits and vegetables; livestock, meat and grains; poultry products, and tobacco.

   Market news provides timely, accurate, and unbiased information to assist producers, growers, and marketers of farm products in making critical decisions of where and when to sell, and at what price. The collection of market information is a joint effort by both Federal and State reporters.

2. Inspection, grading and standardization services: AMS develops and maintains standards of quality and condition for use in the grading and inspection of agricultural commodities. These standards provide a common language of trade for buyers and sellers of these commodities both here and abroad. AMS provides grading and certification services upon request for numerous food and non-food agricultural commodities including livestock and meat, fruits and vegetables, cotton, poultry and eggs, dairy products, and tobacco. AMS also provides continuous in-plant inspection to manufacturers of liquid, frozen, or dried egg products; inspects egg handlers and hatcheries quarterly to ensure the proper disposition of restricted eggs; and controls the importation of egg products to ensure that they meet U.S. requirements. AMS also develops and maintains standard food specifications to provide a more efficient Federal food procurement service.

   The inspection and grading activities are performed by Federal and Federally-supervised State employees. The egg products inspection program is mandatory and is funded from appropriations while grading activities are provided on a fee-for-service basis.

3. Market protection and promotion services: AMS administers several laws to ensure proper marketing practices, stimulate innovative and improved commodities, and provide assistance to industry sponsored activities. The Federal Seed Act requires truthful labeling of seeds shipped interstate to prevent misrepresentation. The Plant Variety Protection Act encourages the

development of novel varieties of sexually reproduced plants by providing patent-like protection to developers. Oversight and direction is provided to several industry funded research and promotion programs which are designed to broaden and enhance the market for domestically produced commodities.

4. Wholesale market development: Under this program, AMS provides technical advice and assistance to States and municipalities interested in creating new or upgrading current wholesale market facilities. AMS also conducts cooperative feasibility studies with other government agencies and the private sector to evaluate the efficiency with which agricultural commodities are handled and marketed, and recommends improvements.

5. Federal-State marketing improvement program: This program provides matching funds to State Departments of Agriculture. These funds enable the States to conduct marketing projects to improve local marketing systems. The aim of the program is to reduce the marketing costs for local producers and consumers. Projects include work in innovative marketing techniques, testing study findings in the marketplace, and developing State expertise in providing service to marketers of agricultural commodities.

6. Perishable Agricultural Commodities Act: Through legal recourse procedures this program protects producers, shippers, distributors and retailers from financial loss due to unfair and fraudulent practices in the marketing of perishable agricultural commodities. This program also prohibits the unwarranted destruction or dumping of farm products handled for others.

7. Strengthening markets, income, and supply (Section 32): This program provides price assistance to producers by contracting for the purchase of surplus and, as necessary, other agricultural commodities from regular market outlets. These surplus commodities are transferred to the Food and Nutrition Service to maintain programmed levels of assistance to schools, to the elderly and to other domestic food assistance programs.

   AMS supervises the administration of the marketing agreements and orders program and conducts public hearings and referenda to determine producer sentiment toward new order programs and revisions of current programs. Marketing orders maintain orderly marketing conditions by establishing minimum prices which handlers pay to producers for milk and dairy products and by regulating the quality, quantity, or size of fruits and vegetables which handlers may market in commercial channels.

8. Work performed for others: AMS provides program related services for Federal, State, and private industry on a reimbursable basis, primarily in connection with the Federal/State market news program and the commodity grading and inspection programs.

AMS headquarters are located in Washington, D.C., with approximately 228 year-round and seasonal field offices. The peak employment period for AMS occurs from October through January, due to the seasonal nature of the cotton, tobacco, and fruit and vegetable grading programs. Employment during the peak period averaged 5,162 during fiscal year 1985. On September 30, 1985, there were 3,548 full-time employees and 1,400 other than permanent full-time employees. Of the total 4,948 employees, 637 full-time and 35 other than permanent full-time employees were located in the Washington, D.C. area. Employees assigned to one or more field office locations included 2,911 full-time and 1,365 other than permanent full-time.

AGRICULTURAL MARKETING SERVICE

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Agricultural Marketing Service:						
Marketing Services	$30,829,368	687	$31,839,000	707	$31,053,000	668
Payments to States and Possessions	985,548	--	984,000	--	--	--
Total	31,814,916	687	32,823,000	707	31,053,000	668
Obligations under other USDA appropriations:						
Agricultural Research Service for administrative support	111,599	--	5,000	--	5,000	--
Agricultural Stabilization and Conservation Service for statistical services	25,000	1	15,000	--	15,000	--
Animal and Plant Health Inspection Service for administrative support	39,469	--	31,000	--	31,000	--
Federal Grain Inspection Service for statistical services .	217,001	5	200,000	4	200,000	4
Food & Nutrition Service:						
For general telegraphic services	--	--	5,000	--	5,000	--
For commodity procurement services ..	174,726	5	201,000	6	201,000	6
Foreign Agri. Service for general telegraphic services	79,952	2	85,000	2	85,000	2
Office of International Cooperation and Development for general telegraphic services	11,569	--	5,000	--	5,000	--
Packers & Stockyards Administration for statistical services .	33,000	--	25,000	--	25,000	--
Statistical Reporting Service for statistical services	10,000	--	10,000	--	10,000	
Miscellaneous reimbursements	24,808	1	10,000	--	10,000	--
Total, Other USDA Appropriations	727,124	14	592,000	12	592,000	12
Total, Agriculture Appropriations	32,542,040	701	33,415,000	719	31,645,000	680
Permanent Appropriations:						
Funds for Strengthening Markets, Income, and Supply (Section 32) ...	2,852,033,043	134	3,692,021,771	133	3,694,000,000	133
Carryin	95,217,882		178,830,327	--	165,070,274	--
Deduct transfers out ...	-2,364,769,782	--	-3,315,298,824	--	-3,273,923,000	--
Deduct carryout	-178,830,327	--	-165,070,274	--	-225,000,274	--
Net AMS	403,650,816	134	390,483,000	133	360,147,000	133
Perishable Agricultural Commodities Act Fund	3,418,460	89	3,356,000	90	3,356,000	90
Total, Permanent Appropriations	407,069,276	223	393,839,000	223	363,503,000	223

Continued on next page

AGRICULTURAL MARKETING SERVICE

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Non-Federal Funds:						
American Egg Board for research work	65,200	1	60,000	1	60,000	1
Cotton Board for research work	92,348	2	112,000	2	112,000	2
Dairy Industry for Dairy Promotion and Research	252,161	5	323,000	6	323,000	6
Egg products inspection	450,915	10	450,000	10	450,000	10
Fees for grading of cotton and tobacco	28,062,046	667	27,253,000	703	28,164,000	703
Grading of farm products for producers, processors, and Municipal, State and Federal Agencies	91,737,609	2,058	78,378,000	2,067	78,378,000	2,031
Milk Market Administrators for Federal Telecommunications System and employee compensation	72,800	--	84,000	--	84,000	--
Potato Board for research work	31,035	1	40,000	1	40,000	1
States for collection & dissemination of market news information	150,877	4	162,000	5	162,000	5
Wheat Industries Council for wheat research	38,052	1	50,000	1	50,000	1
Total, Non-Federal Funds	120,953,043	2,749	106,912,000	2,796	107,823,000	2,760
Milk Market Orders Assessment Fund	32,561,328	623	35,110,000	635	35,110,000	635
Total, Agricultural Marketing Service	593,125,687	4,296	569,276,000	4,373	538,081,000	4,298

Full-time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	4,088	4,172	4,097
Non-ceiling	208	201	201
Total	4,296	4,373	4,298

AGRICULTURAL MARKETING SERVICE

Permanent Positions by Grade and Staff-Year Summary

1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
ES-6	2	--	2	2	--	2	2	--	2
ES-5	2	--	2	2	--	2	2	--	2
ES-4	4	--	4	4	--	4	4	--	4
ES-3	4	--	4	4	--	4	4	--	4
ES-2	1	--	1	1	--	1	1	--	1
ES-1	--	--	--	--	--	--	--	--	--
GS/GM-15	24	--	24	24	--	24	24	--	24
GS/GM-14	64	13	77	64	13	77	61	13	74
GS/GM-13	101	64	165	102	65	167	94	65	159
GS-12	114	154	268	116	158	274	104	158	262
GS-11	39	227	266	40	235	275	30	235	265
GS-10	--	24	24	--	25	25	--	25	25
GS-9	33	781	814	34	786	820	34	786	820
GS-8	8	262	270	8	268	276	8	268	276
GS-7	60	186	246	61	190	251	58	190	248
GS-6	48	31	79	49	32	81	46	32	78
GS-5	63	154	217	63	155	218	60	155	215
GS-4	47	163	210	47	163	210	42	163	205
GS-3	11	35	46	11	35	46	10	35	45
GS-2	4	--	4	5	--	5	4	--	4
GS-1	1	--	1	1	--	1	--	--	--
Milk Market Orders Administrators and Staff	--	638	638	--	635	635	--	635	635
Ungraded Positions	2	23	25	2	22	24	2	22	24
Total Permanent Positions	632	2,755	3,387	640	2,782	3,422	590	2,782	3,372
Staff-Years:									
Ceiling	732	3,356	4,088	747	3,425	4,172	675	3,422	4,097
Non-Ceiling	19	189	208	18	183	201	18	183	201
TOTAL	751	3,545	4,296	765	3,608	4,373	693	3,605	4,298

AGRICULTURAL MARKETING SERVICE

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
	Headquarters	$6,035,442	$6,261,000	$4,967,000
	Field	12,825,317	13,306,000	13,431,000
11	Total personnel compensation	18,860,759	19,567,000	18,398,000
12	Personnel benefits	2,533,603	2,746,000	2,597,000
13	Benefits for former personnel	63,551	82,000	876,000
	Total Personnel Compensation and Benefits	21,457,913	22,395,000	21,871,000
Other Objects:				
21	Travel	1,175,172	1,354,000	1,329,000
22	Transportation of things	113,457	120,000	123,000
23.2	Rental payments to others	281,607	290,000	300,000
23.3	Communications, utilities and misc. charges	2,252,000	2,359,000	2,431,000
24	Printing and reproduction	172,818	186,000	155,000
25	Other services	3,952,397	4,211,000	4,006,000
26	Supplies and materials	446,591	420,000	398,000
31	Equipment	716,293	504,000	440,000
41	Grants, subsidies, and contributions	985,548	984,000	--
43	Interest and dividends	1,005	--	--
	Total Other Objects	10,096,888	10,428,000	9,182,000
	Total Direct Obligations	31,554,801	32,823,000	31,053,000
Position Data:				
	Average Salary, ES positions	$68,392	$68,392	$68,392
	Average Salary, GS positions	$26,495	$26,506	$26,436
	Average Grade, GS positions	8.8	8.8	8.7

AGRICULTURAL MARKETING SERVICE

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Marketing Services:

For necessary expenses to carry on services related to consumer protection, agricultural marketing and distribution and regulatory programs
1 as authorized by law, [and for administration and coordination of payments to States;] including field employment pursuant to section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), and not to exceed $70,000 for
2 employment under 5 U.S.C. 3109, [$32,208,000; of which not less than $1,582,000 shall be available for the Wholesale Market Development Program for the design and development of wholesale and farmer market facilities for the major metropolitan areas of the country] $31,053,000: Provided, That this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but, unless otherwise provided, the cost of altering any one building during the fiscal year shall not exceed 10 per centum of the current replacement value of the building.

The first change proposes deletion of the language related to the administration and coordination of the separate appropriation account, "Payments to States and Possessions" since no funding is proposed for this program in FY 1987.

The second change proposes deletion of the language related to the Wholesale Market Development Program since only close-out funding is needed in FY 1987.

MARKETING SERVICES

Appropriation Act, 1986		$32,208,000
Budget Estimate, 1987		31,053,000
Decrease in Appropriation		-1,155,000
Adjustments in 1986:		
Appropriation Act, 1986	32,208,000	
Less Pro-Rata Reduction, P.L. 99-190	-193,000	
Net Appropriations	32,015,000	
Activities Transferred to:		
ERS and the Assistant Secretary for Economics a/	-128,000	
Departmental Administration and Office of Governmental and Public Affairs for Reimbursable Activities b/	-48,000	
Adjusted base for 1986		31,839,000
Budget estimate, 1987		31,053,000
Decrease from adjusted 1986		-786,000

a/ Pursuant to Secretary's Memorandum No. 1020-21, on July 21, 1985, the functions relating to Agricultural Labor Affairs were transferred to Economic Research Service and the Assistant Secretary for Economics from the Agricultural Marketing Service. On a comparable basis the full annual cost of the activity is $128,000 for 1986 and $128,000 for 1987.

b/ A transfer of $34,000 to Departmental Administration and $14,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Changes	1987 Estimated
Market News Service	$14,787,000	+$242,000	$15,029,000
Inspection and Standardization	13,464,000	+235,000	13,699,000
Market Protection and Promotion	2,019,000	-705,000	1,314,000
Wholesale Market Development	1,569,000	-558,000	1,011,000
Total Available	31,839,000	-786,000	31,053,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
I. Market News Service:							
(a) Cotton and cottonseed.	$1,425,694	32	$1,480,000	32	+$22,000	$1,502,000	32
(b) Dairy products ..	406,025	10	361,000	9	+5,000	366,000	9
(c) Fruits and vegetables.	3,828,371	100	4,030,000	103	+71,000	4,101,000	103
(d) Livestock, meats&grain	5,354,101	135	5,440,000	135	+92,000	5,532,000	135
(e) Leased wire service ...	957,975	9	896,000	9	+14,000	910,000	9
(f) Poultry products ..	1,752,927	42	1,859,000	44	+27,000	1,886,000	44
(g) Tobacco	600,085	18	721,000	20	+11,000	732,000	20
Total, Market News Service ..	14,325,178	346	14,787,000	352	+242,000(1)	15,029,000	352

(Continued on next page)

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
2. Inspec. and Standardiza.							
(a) Egg products inspection.	8,650,924	183	9,182,000	191	+$174,000	$9,356,000	191
(b) Standardization	4,002,723	89	4,282,000	93	+61,000	4,343,000	93
Total, Inspec., & Standardiza..	12,653,647	272	13,464,000	284	+235,000(2)	13,699,000	284
3. Market Protection and Promotion:							
(a) Federal Seed Act ..	949,528	21	1,008,000	22	-728,000	280,000	2
(b) Plant Variety Protection Act	384,414	8	236,000	6	+4,000	240,000	6
(c) Export Fruit Acts	26,974	1	31,000	1	--	31,000	1
(d) Market development and assistance.	567,499	11	744,000	14	+19,000	763,000	14
Total, Market Protection and Promotion	1,928,415	41	2,019,000	43	-705,000(3)	1,314,000	23
4. Wholesale Market Development	1,662,013	28	1,569,000	28	-558,000(4)	1,011,000	9
Unobligated bal.	260,115	--	--	--	--	--	--
Total available or estimate ...	30,829,368	687	31,839,000	707	-786,000	31,053,000	668
Transfer to Economic Research Svc. and Assistant Secretary for Economics	+127,632	--	+128,000	--			
Departmental Administration	+34,000	--	+34,000	--			
Office of Governmental and Public Affairs	+14,000	--	+14,000	--			
Total, appropriation ..	31,005,000	687	32,015,000	707			

EXPLANATION OF PROGRAM

1. Market News Service:

The market news program is carried out under the following authorities:

Agricultural Marketing Act of 1946
Cotton Statistics and Estimates Act of 1927
Naval Stores Act
Tobacco Statistics Act
Tobacco Inspection Act of 1946
Cotton Futures Act
Peanut Statistics Act
Food Security Act of 1985

Market news information is gathered on various food and non-food agricultural products including dairy products, fruits and vegetables, livestock and meat, grain, poultry, eggs, cotton and tobacco. Market news provides those engaged in the production and marketing of farm products, as well as those supplying the farm market, with timely, accurate, and unbiased market information. This market information covers local, regional, national, and international markets and includes current data on supply, movement, contractual agreements, inventories, and prices at specific markets for practically all agricultural commodities. On a day-to-day basis those interested in market conditions are in a position to make the critical decisions of where and when to sell, and at what price.

Market information is obtained by both Federal and State reporters at trading points during business transactions or by telephone. Information collected by these reporters is analyzed and disseminated immediately to the agricultural community by automatic telephone answering devices, printed reports, radio and television spots, newspaper columns, and data networks. National information is integrated with local information and released in a form easily understood by the industry and locality served. Since October 1981, AMS has charged subscription fees to cover postage and handling for all mailed food commodity market news reports, except cotton and tobacco.

Telephone lines and digital circuits between the Agency and the network contractor's facilities for its satellite communications network (SatPac) were installed October through December 1985. The switchover of AMS market news terminals to SatPac was completed January 1986. Also, AMS is a participant in the USDA electronic dissemination of information (EDI) system, which is an automated data base for various sources of USDA information.

Market News Workload Data, FY 1985:

Commodity Group	Field Offices		Buyers and Sellers Inter-viewed	Printed Reports (Thous.)	Number on Mailing List	No. of Federal Reporters	No. of Markets Covered
	Year Round	Sea-sonal					
Cotton and Cottonseed	20	--	850	357	7,570	25	43
Dairy and Dairy Products	2	--	550	85	2,086	5	48
Fruits and Vegetables	34	19	10,312	1,504	23,022	53	807
Livestock, Grain, and Meat	55	--	14,500	222	5,194	81	659
Poultry and Eggs	17	--	1,600	146	1,497	26	81
Tobacco	2	2	500	18	954	4	155

Legislation is being proposed to permit collection of user fees to fully fund market news activities beginning in FY 1987.

2. Inspection, Grading and Standardization:

This program is carried out under the following authorities:

Agricultural Marketing Act of 1946
Agricultural Fair Practices Act
Cotton Statistics and Estimates Act
Cotton Futures Act
Cotton Standards Act
Naval Stores Act
Tobacco Inspection Act
Wool Standards Act
Egg Products Inspection Act
Dairy and Tobacco Adjustment Act of 1983
Food Security Act of 1985

This program covers three distinct areas that facilitate the domestic and international marketing of agricultural commodities: egg products inspection, development and maintenance of commodity quality standards, and commodity grading.

a. Standards. AMS develops, reviews, and maintains agricultural commodity standards that describe product quality attributes such as taste, color, texture, yield, weight, and physical condition. Standards are developed for use in grading cotton, tobacco, wool, mohair, livestock and meat, poultry, eggs, fruits, vegetables, and dairy products.

Standardization Workload Data:

	FY 1985	FY 1986 Estimate	FY 1987 Estimate
International and U.S. standards in effect, end of year	591	593	597
Number of commodities covered	181	182	184
Standards revised	22	27	59

AMS also develops, coordinates, and approves Federal food product descriptions and establishes quality assurance policies and procedures for the procurement of food by USDA, the Department of Defense, and the Veterans Administration. The major goal of this program is to update and streamline Federal food specifications to improve the cost efficiency of Federal food purchasing by using wherever possible commercial item descriptions.

Federal Food Specification Workload Data:

	FY 1985	FY 1986 Estimate	FY 1987 Estimate
Commercial Item Descriptions (CID's) developed, coordinated and approved	10	15	15
CID's revised	5	5	5
Federal specifications approved	2	5	5
Department of Defense food documents coordinated	90	30	30
Documents cancelled	16	35	35

Legislation is being proposed for FY 1987 to provide for collection of user fees to fund 75% of the costs for commodity standardization activities that are directly related to our current grading programs.

b. Grading. The grading process involves the application of quality standards to agricultural commodities. Grading services are offered to users, who pay published fees for services provided. These services facilitate marketing by permitting purchasers to buy commodities without having to personally inspect them and by providing an impartial evaluation of the quality of products prior to their sale. AMS certification services provide assurance to buyers that the products they receive are the quantity and quality specified in their contract with the seller.

Grading Workload Data:

	FY 1985	FY 1986 Estimate	FY 1987 Estimate
Cotton Classifications (thousand bales):			
Smith-Doxey Amendment	13,363	12,830	11,530
Cotton Standards Act:			
Public Classing Service	47	50	50
Cotton Futures Legislation	210	200	200
Total, Cotton Classifications	13,620	13,080	11,780
Cottonseed Grade Certificates Issued: (thousands)	45	35	36
Poultry and Egg Grading:			
Poultry products graded (includes rabbits - million pounds)	12,718	13,394	13,631
Shell eggs graded (million dozen)	1,822	1,855	1,828
Pounds accepted (poultry - million pounds)	835	880	900
Dozen accepted (eggs - million dozen)	492	500	495
Meat Grading:			
Meat graded (million pounds)	13,013	13,000	13,000
Meat accepted (million pounds)	1,891	2,000	2,000
Livestock Grading:			
Livestock graded (million pounds)	332	311	311
Fresh Fruit and Vegetable Grading:			
Product inspected (million pounds)	67,000	69,000	70,000
Processed Fruit and Vegetable Grading:			
Product inspected (million pounds)	12,394	12,500	13,000
Dairy Grading:			
Butter graded (million pounds)	1,100	1,235	1,235
Cheese graded (million pounds)	1,445	1,705	1,705
Dry milk graded (million pounds)	1,715	2,045	2,045
Other products graded (million pounds)	180	180	180
Plant inspections	1,187	1,500	2,000
Tobacco Grading:			
Flue-cured (million pounds)	868	880	880
Fire-cured (million pounds)	41	30	30
Dark air-cured (million pounds)	17	10	10
Burley (million pounds)	716	620	630
Tobacco Reinspection (million pounds)	376	300	300
Imported Tobacco (million pounds)	180	170	170
Total, Tobacco Grading	2,198	2,010	2,020

c. Inspection. This activity involves mandatory examination of egg processing storage facilities and all egg breaking operations. Plants that manufacture egg products are continuously inspected to assure that consumers get wholesome, unadulterated and truthfully labeled egg products. In cooperation with State Departments of Agriculture, shell egg handling facilities are inspected at least four times yearly to control the disposition of certain types of undergrade eggs.

Egg Products Inspection Workload Data:

	FY 1985	FY 1986 Estimate	FY 1987 Estimate
Egg products inspected (billion pounds)	1.3	1.3	1.4
Egg products accepted (million pounds)	15	15	15
Egg products plants	102	100	100
Egg handler surveillance visits	13,554	12,920	12,280
States and Commonwealths with cooperative agreements	52	52	52
Laboratory samples analyzed:			
Food chemistry and microbiology	41,240	40,000	40,000
Chemical residues	932	730	730

Legislation is being proposed for FY 1987 to provide the Secretary of Agriculture the authority to conduct less than continuous inspection of egg processing operations and reduce the required frequency of visits to shell egg handlers. Additionally, the legislation would strengthen USDA authority to withdraw inspections or refuse to provide inspection services. Legislation is also being proposed to permit collection of user fees to fully fund inspection and surveillance services.

3. Market Protection and Promotion:

In the administration of market protection and promotion activities the Agricultural Marketing Service operates under the following authorities:

Agricultural Marketing Act of 1946
Cotton Research and Promotion Act
Egg Research and Consumer Information Act
Export Apple and Pear Act
Export Grape and Plum Act
Federal Seed Act
National Wool Act of 1954
Plant Variety Protection Act
Floral Research, Education and Consumer Information Act
Wheat and Wheat Foods Research and Nutrition Education Act
Potato Research and Promotion Act
Dairy and Tobacco Adjustment Act of 1983
Honey Research, Promotion and Consumer Information Act
Beef Research and Promotion Act of 1985
Pork Promotion, Research, and Consumer Information Act of 1985
Watermelon Research and Promotion Act

a. Federal Seed Act. This Act prohibits mislabeled agricultural and vegetable seed from moving in interstate commerce. This program is conducted under cooperative agreements with each State. About 500 State seed inspectors are authorized to inspect seed subject to the Act. Most apparent violations investigated are initiated by cooperating State agencies. The State agencies submit samples of seed to AMS for testing in order to verify that there has been an infraction of the Act. Based on the results of the tests, AMS will attempt to resolve each case administratively. If a case cannot be resolved administratively, AMS will initiate appropriate legal action. Intrastate infractions of the Act are handled by the States. The program is proposed for elimination in FY 1987.

Federal Seed Act Workload Data:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Seed Testing:			
Seed samples tested in connection with:			
Interstate shipments	1,129	1,100	--
Check tests	316	300	--
Variety testing	1,294	1,200	--
Total number of samples tested	2,739	2,600	--
Interstate Enforcement:			
Cases for Investigation:			
Total to be investigated	1,308	1,300	400
Investigations completed	887	900	400
Pending at end of year	421	400	--
Administrative Actions:			
No action warranted	189	200	100
Warnings issued	447	450	200
Citations issued	185	200	100
Prosecutions recommended	8	10	--
Administrative Settlements:			
Settlements terminated	182	200	20
Settlements pending	25	20	--
Court Actions:			
Prosecutions initiated	8	10	--
Prosecutions pending, 9/30	21	20	--

b. Plant Variety Protection Act. This program offers legal protection to developers of novel varieties of plants which reproduce by seed through the issuance of a certificate of plant variety protection that expires after 18 years. Fees are charged to those applying for certificates of protection and are deposited in the general reserve fund of the Treasury.

Plant Variety Protection Workload Data:	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Backlog of applications, beginning of year	282	332	341
New applications received	219	200	210
Certificates issued	155	183	190
Applications abandoned	14	8	8
Pending applications, end of year	332	341	353
Number of years to process backlog applications	1.8	1.8	1.8

c. The Research and Promotion Acts. The various Research and Promotion Acts provide for the collection of an assessment to producers to carry out research and promotion activities for cotton, potatoes, eggs, wheat and wheat foods, and milk and dairy products. It is the responsibility of AMS to review and approve the budgets and the projects proposed by the research and promotion boards.

Research and Promotion Programs
Dollars in Millions

Programs	FY 1985 Actual Assessments Collected	FY 1985 Actual Funds Expended	FY 1986 Estimate Assessments Collected	FY 1986 Estimate Funds Expended	FY 1987 Estimate Assessments Collected	FY 1987 Estimate Funds Expended
Cotton	$25.9	$18.2	$29.7	$18.5	$22.6	$18.1
Potato	4.9	4.3	5.1	4.5	5.1	4.4
Egg	7.6	6.0	7.6	5.5	7.6	5.5
Wheat	1.5	1.0	1.5	1.1	1.5	1.0
Dairy-National	78.4	86.8 1/	81.7	82.7 1/	80.6	81.6 1/
Dairy-MMO	12.1	12.1	12.5	12.5	12.5	12.5

1/ Includes carryover funds.

The Honey Research, Promotion and Consumer Information Act was enacted on October 30, 1984. Hearings on the program have been held and the program will be implemented in the Spring of 1986 if approved by the Secretary and an industry referendum. Assessments for administering this program will be collected from domestic producers and from importers of honey.

The Beef Promotion and Research Act; the Pork Promotion, Research, and Consumer Information Act of 1985; and the Watermelon Research and Promotion Act were passed with the Food Security Act of 1985. The purpose of these Acts is to strengthen the position of beef, pork, and watermelon in the marketplace and to expand foreign markets.

Legislation is being proposed for FY 1987 to provide for the collection of user fees to fully fund activities under the Export Fruit Acts and the market development and assistance program. Legislation is also proposed in FY 1987 to allow AMS to retain the funds collected under the Plant Variety Protection Act to offset the costs of this program and to repeal the Federal Seed Act.

4. Wholesale Market Development:

Activities in this program are carried out under the authority of the Agricultural Marketing Act of 1946.

The wholesale market development program conducts research and technical assistance aimed at improving marketing efficiency with emphasis on the most effective types of facilities needed to market farm products and distribute food within urban areas. Projects are conducted in cooperation with State and local governments and private industry. Projects are developed to address specific marketing problems, help farmers identify marketing opportunities, and reduce marketing costs.

Wholesale market activities underway in FY 1986 include: completing plans for a major new food distribution center for the Greater San Diego, California area; assessing needs and alternatives for expanding and renovating the Connecticut Regional Market at Hartford, and the wholesale and farmers' markets at Buffalo and Syracuse, New York; and providing technical assistan[illegible] North Carolina, Massachusetts, Virginia, and several other States.

Other activities supporting wholesale marketing and marketing systems are also underway including: development of improved data bases, analytical techniques, and data processing capabilities for use in wholesale market studies; research to develop improved work stations for USDA inspectors in meat and poultry slaughter plants; plans for energy efficient processing operations; computer applications for fresh fruit and vegetable wholesalers; causes of loss and damage in warehouses; modularization recommendations for case sizes for fruits, vegetables, and frozen foods; alternative systems for marketing peanuts; exporting dry edible beans to Europe; and the feasibility of alternative methods of disinfesting grapefruit.

Wholesale Market Development Workload Data:

	FY 1985	FY 1986 Estimate	FY 1987 Estimate
Wholesale market facilities studies completed	0	4	--
Research projects completed	9	8	--

Program is proposed for elimination in FY 1987.

OIG Reports:

#01-045-0003	The Cotton Research and Promotion Program--the Cotton Board, Memphis, Tennessee
#01-099-0022	Cotton Research and Promotion Assessments--Anderson and Scherz, Inc.
#01-099-0021	Wheat Industry Council
#01-099-0022	Milk Market Order No. 33, Columbus, Ohio
#01-099-0023	Milk Market Order No. 34, Berkeley, Michigan
#01-099-0024	Milk Market Order No. 36, Cleveland, Ohio
#01-099-0039	Observance of Winter Peach Marketing Order, Ballot County
#01-099-0040	Federal Marketing Order Referendum, California Raisins

GAO Reports:

RCED-85-57	"The Role of Marketing Orders in Establishing and Maintaining Orderly Marketing of Fruits and Vegetables"

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net increase of $242,000 for market news ($14,787,000 available in FY 1986) consisting of an increase of $288,000 to offset increased operating costs and a decrease of $46,000 for A-76 and management initiative savings.

(2) A net increase of $235,000 for inspection and standardization ($13,464,000 available in FY 1986) consisting of an increase of $279,000 to offset increased operating costs and a decrease of $44,000 for A-76 and management initiative savings.

Need for Change. A net increase is needed to maintain agency efforts to collect, analyze and disseminate timely market news information; keep commodity grade standards current; and to make inspection services available to all who require or request them.

Nature of Change. Resources will be increased to provide the funding necessary to continue current program levels.

(3) A net decrease of $705,000 for market protection and promotion ($2,019,000 available in FY 1986) consisting of:

- (a) a decrease of $1,008,000 for the Federal Seed Act to eliminate the program and retention of $280,000 to fund closeout costs.
- (b) an increase of $28,000 to offset increased operating costs and a decrease of $5,000 for A-76 and management savings initiatives.

Need for Change. The States administer their own seed laws to regulate intrastate commerce in agricultural and vegetable seeds. Interstate seed commerce, regulated by the Federal Seed Act, is performed under cooperative agreement by Federal and State employees. The States have seed laws which provide appropriate seed regulation according to the States' internal need. In the absence of the Federal Seed Act Program, some States can be expected to amend their programs to deal with interstate seed shipments. The laboratory tests currently provided under the Act can be obtained from private commercial labs and some State labs. Program closeout will require funding to finance costs that will remain. These costs include workers' and unemployment compensation, severence pay, and accrued annual leave liability.

Other market protection and promotion programs require a net increase to offset increased operating costs and allow the Agency to provide full services.

Nature of Change. AMS activities under the Federal Seed Act will be eliminated. Funding in FY 1987 for this activity will cover closeout costs for Federal Seed and sustain performance levels for other programs.

(4) A net decrease of $558,000 for wholesale market development consisting of a decrease of $1,569,000 ($1,569,000 available in FY 1986) to eliminate the program and retention of $1,011,000 to fund closeout costs.

Need for Change. Federal participation in the development of major wholesale markets in recent years has provided the research and technology necessary for local governments and the private sector to continue this work. Although these are of local value, their national priority is limited. Closeout expenses include those costs that remain after elimination of the program such as unemployment and workers' compensation, severence pay, and accrued annual leave liability.

Nature of Change. The wholesale market development program will be eliminated. Local research and assistance for improved food distribution can be provided as needed by State, local or private groups. Closeout funds will be provided to cover liabilities that remain after program elimination.

Market development and assistance is provided through economic and statistical analysis of commodity markets for use in the commodity procurement and marketing order programs. The budget includes a proposal to recover costs of this program through user fees.

The transfer of the market news, egg products inspection, standardization, export fruit, and market development and assistance programs to user fees will require funding to cover start-up costs. A request for $1,640,000 is included in this proposal to cover these one-time costs.

Agricultural Marketing Service
Proposed for Later Transmittal, Proposed Legislation

SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION

	1987		
	Current Law	Program Changes	President's Request
Market News Service	$15,029,000	-$15,029,000	--
Inspection, Grading & Standardization	13,699,000	-12,613,000	$1,086,000
Market Protection and Promotion	1,314,000	-708,000	606,000
Wholesale Market Development	1,011,000	--	1,011,000
Start-up Costs	--	+1,640,000	1,640,000
Total Available	31,053,000	-26,710,000	4,343,000

Explanation of Proposed Legislation

The Agricultural Marketing Service provides market news information to the agricultural community. Subscription fees are currently charged to cover the cost of postage, printing and handling for all printed commodity reports except cotton and tobacco. This proposal would allow user fees to be charged to recover the entire cost of this program for all commodities.

The Egg Products Inspection Act requires that all plants manufacturing liquid, frozen or dried egg products be continuously inspected by a Federal inspector or a federally-licensed State employee. Proposed legislation to amend the Egg Products Inspection Act would (1) eliminate the requirement for continuous in-plant inspection for egg processing operations, except for egg breaking operations, and reduce required shell egg surveillance visits from four times a year to once annually and (2) authorize the Secretary to withdraw inspection services for non-compliance.

An additional amendment to the Egg Products Inspection Act is being proposed to implement user fees to recover the costs of inspection and surveillance services.

AMS develops, reviews, and maintains agricultural commodity standards that describe product quality attributes for use in the voluntary grading programs. This proposal would shift the funding source from appropriations to user fees. The cost would be charged to users of the grading programs as a part of the grading fees.

The Plant Variety Protection Act encourages the development of novel varieties of sexually reproduced plants by providing patent-like protection to developers. The fee charged to developers covers the cost of filing, searching, issuing and maintaining plant variety certificates. All revenue collected is deposited into the general revenue fund of the Treasury. Proposed legislation to amend the Plant Variety Protection Act would allow the funds collected for this program to be retained for use by AMS. Appropriated funding would be continued until the two-year backlog of applications is eliminated.

AMS administers the Export Apple and Pear Act of 1933 and the Export Grape and Plum Act of 1960 which were enacted to promote export trade of U.S.-grown fruit. These laws provide for penalties in cases of deception or misrepresentation of the quality of such products, and provide for the inspection of such fruit. Proposed legislation would amend these Acts to allow full user fees to be charged for inspection services.

Agricultural Marketing Service
Marketing Services
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Alabama	$230,308	6	$242,000	7	$246,000	7
Alaska	6,116	--	6,000	--	7,000	--
Arizona	212,415	7	219,000	7	223,000	7
Arkansas	396,604	10	419,000	10	425,000	10
California	1,954,782	52	2,050,000	55	2,082,000	55
Colorado	218,647	7	226,000	7	229,000	7
District of Columbia.	14,227,733	222	14,760,000	224	13,706,000	185
Florida	182,899	6	191,000	6	194,000	6
Georgia	580,045	17	604,000	17	614,000	17
Hawaii	28,225	1	30,000	1	30,000	1
Idaho	44,147	2	48,000	1	49,000	1
Illinois	669,549	21	693,000	21	704,000	21
Indiana	303,966	8	319,000	8	324,000	8
Iowa	1,943,151	53	2,035,000	55	2,067,000	55
Kansas	134,284	5	138,000	5	141,000	5
Kentucky	83,337	3	86,000	3	87,000	3
Louisiana	113,136	3	117,000	3	119,000	3
Maine	54,355	1	58,000	1	59,000	1
Maryland	102,540	3	106,000	3	107,000	3
Massachusetts	137,296	5	142,000	5	144,000	5
Michigan	105,838	3	110,000	3	112,000	3
Minnesota	656,199	17	688,000	19	699,000	19
Mississippi	265,070	7	277,000	7	282,000	7
Missouri	831,770	25	869,000	26	882,000	26
Montana	47,899	2	49,000	2	50,000	2
Nebraska	285,005	9	295,000	9	300,000	9
New Jersey	599,710	17	627,000	18	637,000	18
New Mexico	6,482	--	7,000	--	7,000	--
New York	679,314	20	709,000	20	720,000	20
North Carolina	1,314,274	32	1,388,000	34	1,409,000	34
Ohio	275,735	7	289,000	7	294,000	7
Oklahoma	145,466	4	150,000	5	153,000	5
Oregon	188,466	5	197,000	6	200,000	6
Pennsylvania	468,219	14	487,000	14	494,000	14
Puerto Rico	34,597	1	37,000	1	37,000	1
South Carolina	113,583	3	119,000	3	121,000	3
South Dakota	105,393	4	109,000	4	110,000	4
Tennessee	1,265,524	40	1,320,000	43	1,340,000	43
Texas	657,181	20	681,000	21	692,000	21
Utah	48,717	1	52,000	1	52,000	1
Virginia	26,680	1	28,000	1	29,000	1
Virgin Islands	1,430	--	2,000	--	2,000	--
Washington	391,984	11	409,000	12	416,000	12
West Virginia	49,386	1	51,000	1	52,000	1
Wisconsin	304,159	8	320,000	8	325,000	8
Wyoming	77,637	3	80,000	3	81,000	3
Total, Available or Estimate	30,569,253	687	31,839,000	707	31,053,000	668

MARKETING SERVICES

STATUS OF PROGRAM

MARKET NEWS

Current Activities:

The Market News Service provides current, unbiased information on supplies, demand, prices, movement, location, quality, condition, and other market data on farm products in specific markets and marketing areas. This information is supplied to producers, processors, distributors, and others to assist them in the orderly marketing and distribution of farm commodities.

Selected Examples of Recent Progress:

1. Market Information Collected:

   During FY 1985, market information on food and non-food agricultural commodities was collected by 194 Federal market news reporters covering 1,793 markets throughout the United States. More than 28,000 interviews with buyers and sellers were conducted to collect data used in market news reports. Forty-four States shared in the cost of collecting and disseminating this information.

2. Upgrade of Market News Telecommunications System:

   AMS completed its analysis of the market news telecommunication system to determine the most efficient and economical way of disseminating and storing market news information. As a result of this analysis, AMS will upgrade the current terrestrial data communications network with SatPac satellite data communications network. SatPac is a nationwide data communications network that uses satellites for dependable efficient data transmission. It is jointly owned by Telcom General Corporation and the Associated Press. The new system is planned to be in place by the end of January 1986. Telcom General is also developing a software package for connection of personal computers to the AMS network. This will allow AMS reports to be processed and stored locally at AMS offices before transmission across the network. Telcom General will also develop software to increase the number of AMS reports that can be stored on-line at the AMS Computer Center in Washington, D.C. Installation of all software will be completed by the end of February 1986.

3. Electronic Dissemination of Information:

   AMS is one of five agencies participating in the USDA Electronic Dissemination of Information (EDI) System. This system, which was inaugurated in July 1985, provides selected USDA statistics, news releases, and information documents to the public in an electronic form. Other agencies inputting information into this system are the Office of Governmental and Public Affairs, the Foreign Agricultural Service, the Statistical Reporting Service, and the Economic Research Service.

INSPECTION, GRADING AND STANDARDIZATION

Current Activities:

These programs assist in the marketing of agricultural products by establishing standards which reflect relative quality characteristics for a particular commodity, such as taste, color, weight, yield, and physical condition. These standards are used to grade and inspect livestock and meat, poultry and eggs, dairy products, cotton, tobacco, and fruits and vegetables. The certification and acceptance services that are provided ensure that commodity purchases conform to contract specifications. The grading, certification and acceptance services are provided on a fee-for-service basis.

AMS administers an egg products inspection program which ensures that all egg products are wholesome, unadulterated, and truthfully labeled. AMS provides continuous in-plant inspection of plants manufacturing egg products, a shell egg surveillance program, and an imported egg products inspection program.

AMS also maintains a standardized government-wide food specification system for government food purchases.

Selected Examples of Recent Progress:

1. Egg Products Inspection:

At the end of FY 1985, continuous in-plant inspection was provided to 102 egg products processing plants. Under the import inspection program, 4.0 million pounds of egg products from Canada were approved for importation. Canada is the only country currently eligible to export egg products to the U.S.

The Egg Products Inspection Act (EPIA) also requires control of the disposition of "restricted eggs" to ensure that only shell eggs fit for human consumption are available to consumers. Inedible eggs constitute a small proportion of eggs. Most inedible shell eggs and egg products are used in animal feed, and the remainder are usually destroyed. During FY 1985, the volume of inedible shell eggs and egg products amounted to about 5 percent of liquid egg production. Also during the year, 3,117 shell egg handlers and 581 hatcheries were inspected at least quarterly.

Under the residue monitoring and surveillance programs, egg products were tested for various industrial and environmental chemicals, drug residues and trace elements including chlorinated hydrocarbons, sulfa drugs, pentachlorophenol, and ethylene dibromide. Over 932 samples were analyzed for a variety of chlorinated hydrocarbons during FY 1985. AMS is represented on the Food Safety and Inspection Service Contamination Response System team. During FY 1985, three contamination incidents resulted in the testing of egg products for residues. All of the egg products tested were below the established tolerance levels and none were destroyed.

Proposals have been submitted to Congress to amend the EPIA to permit less-than-continuous inspection in egg products plants and reduce the number of required inspection visits to egg packers. Additionally, this legislation would strengthen USDA's authority to withdraw inspectors from/or refuse inspection service to violators of the Act. To date the legislation has been transmitted to the Congress, but not introduced.

Fees and Charges in Effect:

Service Performed	FY 1985 Hourly Fee
Overtime Inspection	$17.32
Holiday Inspection	$14.20

2. Grading and Standardization:

a. Cotton Classing:

Cotton classing for producers was financed totally by user fees and sample sales during FY 1985 as required by the Omnibus Budget Reconciliation Act of 1981. Participation by producers in the cotton classing program continued at the high level established prior to the imposition of user fees. Approximately 98 percent of the amount billed to producers had been collected at the close of FY 1985.

A total of 13.6 million cotton samples were classed during FY 1985 compared to 8.0 million in FY 1984. Smith-Doxey user fee classing for growers accounted for 13.3 million samples, an increase of 5.6 million from FY 1984 due to larger size of the crop. Classings for growers during FY 1985, the fourth year of user fees, represented about 97 percent of total bales ginned.

Because of the larger cotton crop in 1985, licensed cottonseed chemists issued 44,991 cottonseed grade certificates in FY 1985 compared to 25,978 in FY 1984. Licenses were issued to 18 cottonseed chemists and 85 cottonseed samplers.

During FY 1985, a successful pilot project was conducted in our two south Texas Marketing Services Offices (MSO) allowing gins or other grower agents to access quality data with personal computers via telecommunications connections at these offices. We are presently expanding this capability to our other offices and this service will be available in all 20 MSO's by the end of FY 1986. Quality data is also currently available to grower agents on computer diskette or tape.

The Lamesa, Texas, Marketing Service Office continued to operate as the only complete instrument classing facility during FY 1985, classing 403,516 samples from a territory which includes seven Texas counties and one New Mexico county. Ginners in all the MSO territories in the mid-south portion of the Cotton Belt were included in a survey conducted in FY 1984. As a result, high volume instrument (HVI) classing was provided to producers in four mid-south MSO territories in addition to all of Texas and Oklahoma where HVI classing was offered to growers for the 1983-84 crop. A survey of all gins in the southeastern states was made in FY 1985. Based on the favorable response to this survey, HVI classing is being provided to southeastern growers in FY 1986. In FY 1983, 24 HVI units were leased and put into service. In FY 1984, 30 more HVI units were leased to meet the increased demand. We have been able to provide this service in these additional MSO's for the 1985-86 crop without leasing any additional HVI units. A total of 4.1 million bales were classed on HVI during FY 1985 compared to 2.13 million in FY 1984.

Fees and Charges in Effect:

Service Performed	Fee for 1985-86 Season a/
Cotton Grading	$1.05 per bale for hand classing $1.50 per bale with instrument classing

a/ Five-cent per bale discount if the producer was billed through a voluntary agent (e.g., cotton ginners).

b. Tobacco Grading:

Approximately 96 percent (1.6 billion pounds) of all tobacco produced in FY 1985 was graded by Federal tobacco inspectors and sold at auction markets. In addition, about 381 million pounds of tobacco pledged by growers under the CCC loan program was reinspected by AMS. Permissive grading of cigar-type tobacco amounted to 4 million pounds.

Public Law 98-180, the Dairy and Tobacco Adjustment Act of 1983, requires that all tobacco (except cigar and oriental types) imported into the United States be inspected to ascertain the kind imported and its quality. The imported tobacco inspection program was initiated on July 13, 1984. During FY 1985, approximately 180 million pounds of imported tobacco was inspected.

Fees and Charges in Effect:

Service Performed	FY 1985 Fee
Permissive Inspection	Regular time $20.45 per hour Overtime $24.40 per hour Sundays and Holidays $30.50 per hour
Tobacco Grading	$.55 per hundred pounds
Imported Tobacco Grading	$.35 per hundred pounds

c. Poultry and Egg Grading:

Approximately 96 percent of poultry grading services are provided on a resident basis with the grader stationed at the plant requesting service. The remaining 4 percent of the services are provided on a nonresident (lot grading) basis. During FY 1985, resident service was provided in 216 poultry plants and 234 shell egg plants. A total of 12.7 billion pounds of poultry and 1.8 billion dozen shell eggs were graded during the year. This represents about 93 percent of the turkeys and 70 percent of the broilers certified as wholesome by the Food Safety and Inspection Service and 41 percent of the shell eggs produced in the U.S.

Fees and Charges in Effect:

Service Performed	FY 1985 Hourly Fee
Non-Resident Plant:	
Voluntary Grading:	
Regular Time	$21.88
Saturday, Sunday, Holiday	$23.68
Laboratory Work	$25.48
Resident Plant	$16.16-$22.63

d. Meat Grading and Certification:

During FY 1985, the Agricultural Marketing Service provided grading and certification services to approximately 600 meat packing, processing, and other food establishments nationwide. A total of 13 billion pounds of red meat was graded during the year. An additional 2 billion pounds of meat and meat products were certified for compliance with contract specifications. Approximately 57 percent of the beef, 91 percent of the lamb, and 9 percent of the veal and calf commercially produced in the U.S. during FY 1985 were graded. Certification work was performed for the Department of Defense, the USDA's School Lunch Program, exports, futures contracts and commercial certification programs which include State and local governments, hospitals, and similar institutions.

Fees and Charges in Effect:

Service Performed	FY 1985 Hourly Fee
Base Grading	$26.40
Overtime Grading	$34.40
Holiday Grading	$52.80

e. Livestock Grading:

In FY 1985, AMS inspected and graded, according to contract specifications, approximately 332 million pounds of livestock delivered to settle futures contracts for the Chicago Mercantile Exchange and the Mid-America Commodity Exchange. Livestock delivered included live slaughter steers, feeder steers, and live slaughter hogs.

Fees and Charges in Effect:

Service Performed	FY 1985 Hourly Fee
Base Inspection	$29.40
Overtime Inspection	$32.80
Holiday Inspection	$58.80

f. Processed Fruit and Vegetable Grading:

In FY 1985, 12.4 billion pounds of processed fruits and vegetables were graded. Grading services were provided at 346 processed products plants. Approvals on licenses for the reproduction and distribution of existing visual aids used as guidelines in grading continued in FY 1985. The orange juice colorimeter study to approve additional colorimeters was completed in FY 1985. Three additional instruments have been approved for use.

Fees and Charges in Effect:

Service Performed	FY 1985 Hourly Fee Base	Holiday	Overtime
Lot Inspection	$24.00	$48.00	$29.00
Yearly Contract (in-plant)	$19.00	$38.00	$24.00
Requested Additional Inspectors (in-plant)	$21.00	$42.00	$26.00
Seasonal Contract (in-plant)	$26.00	$52.00	$31.00

g. Fresh Fruit and Vegetable Grading:

Grading services for fresh fruits and vegetables are available at shipping points and in receiving markets in 116 cities. In FY 1985 approximately 70 billion pounds of fresh fruits, vegetables, and specialty crops were graded. This grading was accomplished by AMS with the assistance of 5,000 licensed state employees, supervised by Federal graders.

Fees and Charges in Effect:

Service Performed	FY 1985 Fees	
Quality and Condition Inspections	$35.00	Half-carlot or less
	$42.00	More than half-carlot up to full-carlot
	$84.00	Maximum per carlot when more than one product is involved
Condition Only Inspections	$33.00	Half-carlot or less
	$35.00	More than half-carlot up to full carlot
	$70.00	Maximum per carlot when more than one product is involved
Shelled Pecans and Other Nuts	$1.20	Per ton, $20.00 minimum fee
Farmers' Stock Peanuts	$3.50	Per ton
Hourly Rate (in lieu of other fees)	$21.00	Per hour
Overtime Charges	$10.60	Per hour additional to other charges
Small Package Fees (institutional purchases)	$5.50	1 to 25 packages
	$7.75	26 to 50 packages
	$11.00	51 to 150 packages
	$15.50	151 to half-carlot

h. Dairy Products Grading:

Dairy products grading, laboratory analysis, and plant inspections assure the purity and quality of dairy products. AMS dairy grading is required on all products sold to the Commodity Credit Corporation (CCC). AMS also performs grading work for private processors upon request. In FY 1985, AMS graded approximately 4.4 billion pounds of dairy products, and made about 1,200 dairy plant inspections to assure sanitation in processing.

Fees and Charges in Effect:

Service Performed	FY 1985 Hourly Fee
Continuous Resident Service	$15.60
Products Inspection and Grading	$19.00
Night Differential Products Inspection and Grading	$21.00
Lab Analysis	$20.30
Continuous Non-Resident Service	$25.80
Night Differential Continuous Non-Resident Service	$27.80
Holiday, Saturday, Sunday	$35.20

i. Federal Food Specification Efforts:

During FY 1985, 109 documents were reviewed for approval or to determine disposition of USDA comments and to ascertain the impact of documents on quality assurance procedures performed by certification activities. Also, 19 food product descriptions were approved, including 15 Commercial Item Descriptions (CID's), 2 Federal specifications, and 2 amendments to Federal specifications. Finally, 16 Federal specifications were canceled. These documents were replaced by CID's or U.S. Grade Standards.

j. Standardization:

Domestic and international standards are developed for use in grading, examination and certification services for poultry, eggs, meat, dairy products, fresh and processed fruit and vegetables, cotton, tobacco, naval stores, wool, mohair, and livestock. In FY 1985, twenty-two standards were revised, and three were developed. Eight of these were for fresh and processed fruit and vegetable products, one for dairy products, five for livestock products, one for tobacco products, and ten for cotton products.

MARKET PROTECTION AND PROMOTION

Current Activities:

AMS administers several laws under this activity, including the Agricultural Marketing Act of 1946; the Federal Seed Act; the Plant Variety Protection Act; research and promotion acts for cotton, dairy products, eggs and egg products, honey, wheat and potatoes; the Export Apple and Pear Act; and the Export Grape and Plum Act. These laws regulate various marketing activities and the administration of each includes one or more of the following: issuance, suspension or revocation of licenses or registration; collection and testing of seed samples; audits of books and records; investigation of complaints and violations; settlement of disputes; and legal protection to developers of new varieties of plants which reproduce sexually.

Selected Examples of Recent Progress:

1. Seed Testing:

   a. Federal Seed Act:

   AMS has cooperative agreements with each State to regulate interstate commerce of agricultural and vegetable seeds with regard to labeling. Under these agreements, the States refer apparent violations of the Federal Seed Act's interstate provisions to AMS for verification and appropriate action. In FY 1985, 691 new complaints were received from 30 States. Approximately 30 percent of all complaints turned over to AMS for investigation warranted penalty action. Intrastate violations of the Act are handled by the States.

   Forty-one Federal Seed Act cases were settled administratively during FY 1985 with penalty assessments totaling $62,100. The penalty assessments ranged from $150 to $16,000.

   b. Agricultural Marketing Act of 1946:

   AMS offers seed lot inspection and certification services to interested parties for a fee. Most of the users of this service are importers or exporters of seed. During FY 1985, over 1,700 sample seed analysis certificates were issued.

   AMS continues to test seed samples submitted directly to the Federal Seed Laboratory by applicants and issues seed analysis certificates pertaining only to the seed sample.

2. Plant Variety Protection Act:

   Protection under the Act is currently given to varieties of 83 species of plants. Each developer of a new variety is assessed a fee of $2,000 to cover the cost of filing, searching, issuing and maintaining plant variety protection certificates. All revenue collected is deposited into the general revenue fund of the Treasury. Legislation to allow full user fee funding for this program and earmark the funds collected for use by AMS without fiscal year limitation was included in the proposed Omnibus User Fee Marketing Act of 1983, but was not enacted.

A total of 219 applications for protection of new varieties of seed were received in FY 1985. A total of 332 applications, including some from the previous year, were pending action at the end of FY 1985. Searches were conducted on 163 applications to determine whether the plant constituted a new variety and 155 certificates of protection were issued. A total of 1,443 certificates were in force at the end of FY 1985.

3. Research and Promotion Programs:

AMS provides oversight and direction to a number of industry-funded research and promotion programs. These programs are aimed at strengthening the demand for and improving the quality of cotton, dairy products, eggs and egg products, wheat and potatoes. Administrative costs for these programs are borne by the industry.

Producers voted to continue the Dairy Research and Promotion Order in a referendum held in August 1985. This Order was provided for by the Dairy and Tobacco Adjustment Act of 1983. The program is funded by a mandatory 15-cents per hundredweight assessment on all milk produced in the 48 contiguous states.

During FY 1985 hearings were held on a proposed Honey Research and Promotion Program. The Secretary's decision on whether to issue an Order, followed by the industry's referendum, is expected in early 1986.

In addition to a full scale domestic promotion program, the Potato Board is developing new markets in Japan, South Korea, Hong Kong and Singapore. Japan has become a major consumer of U.S. frozen french fries. Projects currently being undertaken are advertisements, participation in food shows, cooking classes and demonstrations in supermarkets. The Potato Board spends about $120,000 annually for export activity.

	FY 1985	
	Assessments Collected	Refunds to Producers
	(Millions of Dollars)	
Cotton Research and Promotion Act	$25.9	$8.3
Egg Research and Consumer Information Act	7.6	2.7
Wheat and Wheat Foods Research and Nutrition Education Act	1.5	.6
Potato Research and Promotion Act	4.9	.5
Dairy and Tobacco Adjustment Act	78.4	--
Agricultural Marketing Agreement Act of 1937	12.1	--

4. Export Fruit Acts:

AMS administers the Export Apple and Pear Act of 1933 and the Export Grape and Plum Act of 1960. Both laws were enacted to promote export trade of U.S.-grown fruit. Regulations issued under these laws provide for minimum quality and container labeling requirements, and mandatory inspection of such fruit. These laws prescribe penalties in cases of deception or misrepresentation of the quality of such products. During FY 1985, 15 carrier offices were visited and 237,529 cartons of fruit were checked and found to be in compliance with the Acts.

WHOLESALE MARKET DEVELOPMENT

Current Activities:

The wholesale market development program is directed toward the improvement of wholesale and farmers' market facilities and reducing marketing costs through research. Market studies and technical assistance are provided at the request of and in cooperation with State and local governments, other research organizations, and private industry.

Selected Examples of Recent Progress:

1. San Diego Food Distribution System: Most major phases of this study were completed in FY 1985 including the development of detailed plans for a proposed new wholesale food distribution center to serve the San Diego area. A joint USDA, city of San Diego, and San Diego Association of Governments presentation of study findings has been prepared for use in the development planning process for the region during 1986, and a final report is being prepared.

2. Central North Carolina Food Distribution Center: Technical assistance is being provided to the North Carolina Department of Agriculture (NCDA) and others for the development of a new wholesale food distribution center to serve Raleigh and surrounding counties following completion of a cooperative USDA-NCDA study. The North Carolina Legislature has appropriated $12 million for the initial construction of the new center.

3. Buffalo, New York Improved Wholesale Food Distribution Facilities: Work has begun on a study of Buffalo wholesale food facilities to evaluate the need for a potential wholesale food distribution center to serve the northwestern part of the State. Field work has been completed in the study and data analysis has been initiated.

4. Improved Workplace Designs for Inspecting Meat and Poultry: Research on workplace design was initiated in FY 1985 and is partially funded by the Food Safety and Inspection Service. An ergonomically improved workplace, based on a stationary table for inspecting cattle plucks (eviscera and internal organs), was developed by the study team and is being tested in commercial plants. In many cattle slaughter plants, the inspection of pluck limits line speeds, restricting productivity of the entire plant and contributing to high meat marketing costs. Assistance was also provided to poultry processors in designing adjustable platforms and chairs, and a report is being prepared on how to achieve greater productivity and reduce stress through improved workplace methods and facilities.

5. Alternative Crop and Marketing Study: A team approach has been successfully used to help farmers identify marketing opportunities from alternative crops. After three successful years, Virginia broccoli growers were able to secure private financing and build a modern packing, icing, and storage facility in time for their fourth year's 450 acre crop. The facility will be used for other vegetables in addition to more broccoli next year. A market study for Oklahoma and Arkansas has been completed and opportunities for selected crops are being identified.

6. Computer Feasibility for Fresh Fruit and Vegetable Wholesalers: This study defines the information requirements of fresh fruit and vegetable wholesalers, determines alternative information systems to satisfy these requirements, and develops costs for the selected alternatives. Most produce wholesalers lack computer systems to monitor their purchase and sales activities, resulting in a lack of awareness of current inventory. Computer firms do not understand their needs. This study bridges the gap and has already resulted in successful privately funded installations.

AGRICULTURAL MARKETING SERVICE

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Payments to States and Possessions:

> [For payments to departments of agriculture, bureaus and departments of markets, and similar agencies for marketing activities under section 204(b) of the Agricultural Marketing Act of 1946 (7 U.S.C. 1623(b)), $990,000.]

This change proposes deletion of the Payments to States program which has been in effect since 1948. During that period of time, those State Departments of Agriculture so inclined have been able to build a capability to respond to marketing service needs. The Administration no longer believes it is necessary to assist State Departments of Agriculture in conducting marketing service projects geared to developing ongoing State capabilities and services, or to address specific local marketing problems.

PAYMENTS TO STATES AND POSSESSIONS

Appropriation Act, 1986	$990,000
Less Pro-Rata Reduction, P.L. 99-190	-6,000
Net Appropriations	984,000
Budget Estimate, 1987	--
Decrease in Appropriation	-984,000

PROJECT STATEMENT

Project	1985 Actual	1986 Estimated	Increase or Decrease	1987 Estimated
Payments for marketing service work under section 204(b) of the Agricultural Marketing Act of 1946	$985,548	$984,000	(1) -$984,000	--
Unobligated balance	4,452	--	--	--
Total, appropriation	990,000	984,000	-984,000	--

EXPLANATION OF PROGRAM

The Federal-State Marketing Improvement Program is authorized by Section 204(b) of the Agricultural Marketing Act of 1946. This legislation also grants the U.S. Department of Agriculture authority to establish cooperative agreements with State Departments of Agriculture or similar State agencies. These agreements make possible joint efforts to improve the efficiency of the agricultural marketing chain. The States perform the work or contract it to others, and must contribute at least half of the cost of the projects.

Payments are made to State marketing agencies to: test marketing innovations; determine methods of providing more reliable market information; develop better quality commodity grading standards; and develop additional domestic and foreign market outlets. This program has covered many types of projects, such as electronic marketing and telephone auction systems. The general themes of the current projects include the adaptation of the marketing of agricultural products to new technologies and increasing agricultural exports.

JUSTIFICATION OF INCREASES AND DECREASES

(1) A decrease of $984,000 for elimination of the Payments to States and Possessions program ($984,000 available in 1986).

Need for Change. Federal funds have been provided to States to pay up to half the cost of pilot-testing special service projects to help solve local marketing problems. The program has been underway since 1948 and during that period of time those State Departments of Agriculture so inclined have been able to build a capability to respond to marketing service needs. The Administration believes it is no longer necessary to assist State Departments of Agriculture in conducting marketing service projects geared to developing ongoing State capabilities and services, or to address specific local marketing problems.

Nature of Change. Federal matching funds would no longer be provided to assist States in funding projects to deal with specific State or local marketing problems.

Agricultural Marketing Service
Payments to States and Possessions
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
1985 and Estimated 1986 and 1987

	1985	1986	1987
Alabama	$ 135		
Colorado	105,000		
Florida	121,250		
Iowa	73,468		
Maine	32,000		
Massachusetts	50,000		
Mississippi	75,000		
Montana	63,800		
New Jersey	44,323		
New York	66,466		
North Dakota	67,400		
Oklahoma	80,578		
Texas	35,000		
Virginia	96,128		
Washington	75,000		
Total, Available or Estimate	985,548	984,000 a/	--

a/ Distribution of obligations by State not available until projects have been selected for funding in FY 1986.

PAYMENTS TO STATES AND POSSESSIONS

STATUS OF PROGRAM

Current Activities:

Through cooperative agreements with State Departments of Agriculture, the Federal-State Marketing Improvement Program supports joint projects aimed at improving the efficiency of the agricultural marketing chain. The States contribute at least half of the cost of such projects. The work is performed by State personnel, employees of land grant universities, or contracted out to private industry.

Selected Examples of Recent Progress:

During FY 1985, a total of 16 projects were worked on in conjunction with 14 States. In addition to the $990,000 provided by AMS for these projects, the States contributed approximately $1 million. Examples of the projects funded under this activity include:

Federal Funding	Participating State	State(Private) Contribution	Projects
$75,000	Colorado	$235,000	This is a project intended to develop standards to identify range-finished lambs from a live basis through the processing and marketing channels to retail cuts, and to analyze consumer acceptance and substitution rates for this product compared to others. This project has just begun; if successful, it will benefit the intermountain regions of Colorado, Utah, Wyoming, and Idaho.
102,000	Florida	103,800	This is a study that will evaluate the impact of the Computer-aided Marketing Program (CAMP) which is an electronic produce marketing system; determine the level of user satisfaction from using CAMP services; and assess the impact of CAMP on the operational and pricing efficiency of the produce marketing industry.

Federal Funding	Participating State	State(Private) Contribution	Projects
$75,000	Mississippi	$75,000	This is a continuation of a 1984 grant to develop a cotton information network system. This system will provide the capability to have electronic documentation of bale identity, classing information, warehouse receipts, title, liens, etc. The objective of this project is to reduce the cost of cotton marketing and production, thereby making the U.S. cotton industry more competitive in world markets.
73,468	Iowa	101,104	This is a two-part grant - the first part will determine the economic feasibility for developing centralized post-harvest handling and marketing facilities for fruits and vegetables. The other part of the grant is to develop permanent full-time metropolitan farmers' markets in the State.
50,000	Massachusetts	75,000	The program involves the use of matching funds from industry to improve direct marketing of farm-grown products (primarily fruits and vegetables) to supermarkets, institutions, consumer cooperatives, restaurants, and grocery stores.
80,578	Oklahoma	120,000	These funds will be used to conduct feasibility studies of the electronic marketing of grain. Oklahoma State University and Virginia Polytechnic Institute and State University are working closely on this project. These studies will lead to evidence on how such a system should be structured.
75,000	Washington	75,000	An entirely new area is being explored by Washington in a study to determine the feasibility of locating an irradiation facility in that State and to identify what advantage irradiated agricultural products would bring to the region in terms of price and quality in export markets.

PERISHABLE AGRICULTURAL COMMODITIES ACT FUND

Appropriation Act, 1986 (from receipts)	$3,356,000
Budget Estimate, 1987 (from receipts)	3,356,000
Change in Appropriation	--

PROJECT STATEMENT
(On basis of available funds)

Project	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
Licensing dealers and handling complaints	$3,418,460	89	$3,356,000	90	--	$3,356,000	90
Unobligated balance available start of period..	-751,266	--	-735,716	--	--	-735,716	--
Unobligated balance available end of period ...	735,716	--	735,716	--	--	735,716	--
Total available or estimate	3,402,910	89	3,356,000	90	--	3,356,000	90

OBLIGATION LEVELS
(On basis of available funds)

Item	1985 Actual	1986 Estimated	1987 Estimated
Appropriation (from receipts)	$3,402,910	$3,356,000	$3,356,000
Unobligated balance available, start of period	751,266	735,716	735,716
Total available	4,154,176	4,091,716	4,091,716
Total obligations	-3,418,460	-3,356,000	-3,356,000
Unobligated balance available, end of period	735,716	735,716	735,716

EXPLANATION OF PROGRAM

PERISHABLE AGRICULTURAL COMMODITIES ACT

This program is carried out under the following authorities:
Perishable Agricultural Commodities Act
Produce Agency Act

These Acts are designed to: (1) protect producers, shippers, distributors and retailers from unfair and fraudulent practices in the marketing of perishable agricultural commodities; and (2) prevent the unwarranted destruction or dumping of farm products handled for others.

Commission merchants, dealers, brokers, and retailers engaged in the business of handling fresh or frozen fruits and vegetables in interstate or foreign commerce must be licensed under the Perishable Agricultural Commodities Act. Agents are required to give a true and correct accounting to their principals. Buyers and sellers must fulfill the terms of contractual agreements, and buyers must pay promptly for their purchases.

Employment and licensing restrictions are placed on traders who have been found in a formal proceeding to have violated the prompt payment provisions of this Act and when eligible, they are required to post surety bonds before operating. False or misleading statements, misbranding, and similar violations are prohibited.

To increase protection and avert financial losses to growers and licensed firms, the Perishable Agricultural Commodity Act was amended, effective December 1984, to create a statutory trust. Sellers of fruits and vegetables who have not been paid and who file proper notice are secured under this legislation until full payment is made. These sellers are also secured in the event the buyer files for bankruptcy or becomes insolvent. This legislation improves the timeliness of payment.

Complaints of violations are investigated and violations dealt with by: (1) informal agreements between the two parties; (2) formal decisions involving payment of reparation awards; and/or (3) suspension or revocation of license and/or publication of the facts. Any interested party or group may request AMS assistance in settling disputes under the Perishable Agricultural Commodities Act.

License fees are deposited into a special fund and are used to meet the costs of administering these Acts. The maximum annual PACA license fee allowable under the Act is $300, plus $150 for every branch or business facility above nine, up to a maximum annual fee of $3,000.

Perishable Agricultural Commodities Act Workload Data:

	FY 1985	FY 1986 Estimate	FY 1987 Estimate
Licensing Activities:			
Licenses renewed	13,533	13,650	13,650
New licenses issued	2,042	2,050	2,100
In effect end of year	15,575	15,700	15,750
Actions Completed:			
License actions	16,687	16,700	16,700
Reparation actions	33,540	33,600	33,650
Disciplinary actions	178	200	225
Personal investigations	1,261	1,300	1,375
Total Actions Completed	51,666	51,800	51,950
Reparations: (Dollars in Thousands)			
Awarded - Formal orders	$7,066	$7,250	$7,300
Payments - Amicable settlements	7,800	8,200	8,300
Total Reparations	$14,866	$15,450	$15,600

Agricultural Marketing Service
Perishable Agricultural Commodities Act
Geographic Breakdown of Obligations and Staff-Years
1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
California	$271,039	7	$266,000	8	$266,000	8
District of Columbia.	2,353,306	60	2,310,000	60	2,310,000	60
Illinois	278,633	8	274,000	8	274,000	8
New York	264,626	7	260,000	7	260,000	7
Texas	250,856	7	246,000	7	246,000	7
Total, Available or Estimate	3,418,460	89	3,356,000	90	3,356,000	90

PERISHABLE AGRICULTURAL COMMODITIES ACT

STATUS OF PROGRAM

Current Activities:

The Perishable Agricultural Commodities Act (PACA) and the Produce Agency Act, both funded by annual license fees, are designed to: (1) protect producers, shippers, distributors, and retailers from loss due to unfair and fraudulent practices in the marketing of perishable agricultural commodities; and (2) prevent the unwarranted destruction or dumping of farm products handled for and on behalf of others.

Commission merchants, dealers, and brokers handling fresh and frozen fruits and vegetables in interstate and foreign commerce require a PACA license. Violations of the Act are investigated and result in: (1) informal agreements between the two parties; (2) formal decisions involving payments to injured parties; or (3) suspension or revocation of license and/or publication of the facts.

Selected Examples of Recent Progress:

1. Perishable Agricultural Commodities Act:

   a. Informal Reparation Complaints:

      During FY 1985, over 29,000 inquiries were received from members of the industry seeking advice concerning disputes. The assistance rendered may enable traders to avoid marketing problems which could result in the filing of complaints under this law.

      There were 3,069 new reparation cases filed in FY 1985. These cases resulted in informal settlements of over $8.0 million to PACA licensees and unlicensed growers. Fifty-one administrative actions and seven court actions were instituted for violations of the law.

   b. Trust Legislation:

      In an attempt to avert financial losses to growers and licensed firms, the produce industry, in cooperation with AMS, proposed legislation that would amend the PACA to provide increased protection to sellers of produce. This legislation created a statutory trust on perishable agricultural commodities for the benefit of sellers who have not been paid. This places sellers of fruits and vegetables in a secured position in the event a buyer files for bankruptcy or becomes insolvent, and also improves the timeliness of payments. This amendment became law on May 7, 1984.

      Regulations allowing administration of Trust provisions became effective December 20, 1984. By the close of the fiscal year, approximately 14,000 notices had been filed by unpaid sellers to protect their rights to Trust assets. Over $5 million had been recovered by these claimants by the end of FY 1985.

c. Formal Reparation Complaints:

In FY 1985, there were 892 decisions and orders issued by the Judicial Officer. Reparations amounting to $7.0 million were awarded in 609 of the decisions.

2. Produce Agency Act:

In FY 1985, one new complaint was filed and is pending. One case filed in the previous year has been resolved.

The estimates include appropriation language for this item as follows:

Limitation on Administrative Expenses:

Not to exceed [$27,253,000] $28,164,000 (from fees collected) shall be obligated during the current fiscal year for administrative expenses.

Limitation on Administrative Expenses

Appropriation Act, 1986	$27,253,000
Increased Operating Costs	911,000
Budget Estimate, 1987	28,164,000

An increase in the limitation on administrative expenses is needed to offset increased operating costs.

AGRICULTURAL MARKETING SERVICE

Passenger Motor Vehicles

The 1987 Budget Estimates propose the purchase of twenty-five replacement motor vehicles and five additional vehicles to be added to the current fleet.

The number of passenger motor vehicles estimated to be available for 1987 represents the number required to maintain essential services of the current programs of the Agricultural Marketing Service. These cars are used in providing the following necessary services: (1) traveling to places which are in most cases not accessible by common carriers, such as farms, market terminals, offices of product dealers and truckers, processing plants, canneries, stockyards, cotton gins, and compress operators; (2) carrying special grading and testing equipment used for inspecting and grading commodities and for performing other work required under the Agricultural Marketing Act of 1946; U.S. Cotton Standards Act; Cotton Statistics and Estimates Act; Tobacco Inspection Act; and Dairy and Tobacco Adjustment Act; and (3) carrying boxes of cotton standards types used in classing work and demonstrations at farmers' meetings.

Additional passenger motor vehicles. Five additional passenger motor vehicles are requested for FY 1987. The Dairy and Tobacco Adjustment Act of 1983, Public Law 98-180, required that tobacco imported into the United States be inspected to ascertain the amount and type of tobacco imported as well as its quality. These vehicles are needed to transport inspectors from the regional offices to ports of entry in various coastal cities to perform this inspection. The first year of full implementation of this program occurred in FY 1985.

The demand for this program tripled from FY 1985 to FY 1986 and additional growth in the future is anticipated. Because the demand for this program could not accurately be anticipated until it had operated for at least one year, previous estimates of the need for motor vehicles were conservative. Our experience has now led us to conclude that additional motor vehicles will be needed by this program.

Replacement of passenger motor vehicles. Replacement of 25 of the 56 vehicles now in operation is proposed. All vehicles proposed to be replaced are expected to have mileage of over 60,000 or will be more than six years of age.

The age and mileage data for passenger motor vehicles on hand as of September 30, 1985 are as follows:

Age Data			Mileage Data		
Age/Year Model	Number of Vehicles	Percent of Total	Lifetime Mileage (thousands)	Number of Vehicles	Percentage of Total
1980 or older	10	18	80-100	7	13
1981	--	--	60-80	4	7
1982	6	11	40-60	4	7
1983	5	9	20-40	24	44
1984	24	44	Under 20	17	29
1985	11	18	Total	56	100
Total	56	100			

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